AMERICAN BANKERS Association JOURNAL

SEPTEMBER 1932

Should Banks Pay for Deposits?

The Home Loan System—Bank Advertising Objectives

ommodity Prices—The Check Tax in Operation—Economy

The American Plan Is Conservative—By Mark Sullivan

PUBLISHED IN TWO SECTIONS · SECTION ONE

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FEATURES FOR SEPTEMBER, 1932

DEPARTMENTS

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Behind the Bond News

THE bond market has had so perpendicular an advance, in the month covered by this review, as to lend encouragement to the view that the forces of the depression are at last being routed. Led by the United States Government issues, virtually all classifications of domestic bonds have staged the sharpest rally of the depression. The market has been increasing steadily in breadth, the public together with institutions has begun again to buy, and the volume of turnover has had a substantial expansion.

As in the case of the stock market, bonds have won, rather than lost, supporters as the price advancement gained headway. Of great significance has been the fact that savings banks, for the first time during the year, have placed a greater amount of their funds in bonds than in real estate mortgages. The defection of the banks from the bond market, whether by choice or necessity, in the first half of the year served to magnify the one-sidedness of the market, and their return can be counted on to increase the momentum of the upswing. It has been rather more than a coincidence that other institutions should have been won over to the bond market directly after the commercial banks and trust companies in New York banded together to buy some of the higher grade bonds for long term investment.

GALLOWAY

The volume of new offerings has undergone a modest expansion—modest because of the earnest desire of the bankers not to "crowd" the market. Rarely have the investment bankers exercised more judgment and restraint in gearing the supply of new issues to the demand. The Treasury, of course, still is the chief borrower, but here again the response to the most recent offering of certificates and notes was so overwhelming as to show a marked improvement in the amount of investable funds and a marked change in investing psychology. The demand for the four-year notes was particularly heartening. Several offerings of utility obligations have been snapped up with unusual eagerness, investors and dealers taking up a whole issue before it could be put formally on the market.

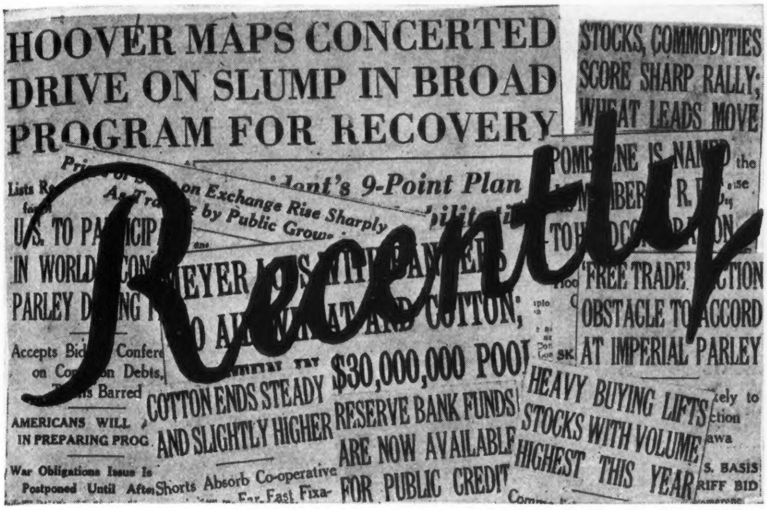
THE INTANGIBLE FACTORS

THERE have been no news developments that would account entirely for the extraordinary strength of the bond market. The extension of the circulation privilege to Treasury long-term issues with a coupon of 3⅜ per cent or less, as provided in the Glass-Borah rider to the Home Loan Bank Bill, has been an event of considerable importance to the Government bond market, and the fact that the August 1 interest date was cleared without any major domestic defaults contributed to the betterment of sentiment. But the reasons for the swift rise in bond prices do not lie wholly on the surface of the news; instead, the intangibles have played the role of greater importance, with the chief contributing factor the very real beginning made in displacing fear from, and restoring confidence to, the minds of institutional and private investors, business men and bank depositors. So wide and so energetic an attack has been made on the forces of depression by Governmental and private business interests alike that the belief that the avenues of approach to better business are being paved has won supporters on all sides. Commodity prices have shown a sustained advance. Ordinarily this increase in staple prices and the promise of its continuance would affect bond prices adversely, but bond prices are still so low as to make the improvement in commodities a favorable, rather than an unfavorable, factor.

It is undeniable that the increase in the supply of circulation bonds has exerted an influence on the helpful side. What the value of the increased circulation privilege will be when the need is to put the brakes on credit expansion is another question; but for the moment the right to issue more national bank notes has been of some assistance in lifting pressure and creating a better atmosphere for credit expansion. The immediate effect of the passage of the Glass-Borah amendment has been the stimulation of the prices of new circulation bonds, which has brought corresponding improvement in the portfolio position of banks, insurance companies, etc. As the prices of the 3⅜s, 3⅛s and 3s have attained or approached parity, the banks have been more inclined to acquire more Government issues and to increase their credit in other directions. Just as in some circumstances the appetite grows with eating, so the bond buying that banks and other large holders have already done has made them more disposed to add still further to their holdings.

WIDE SECURITIES INTEREST

THE rally in the circulation bonds has been such an event as may break the spiral of deflation and set in motion the tendencies to recovery, which will gain in breadth and momentum as (CONTINUED ON PAGE 65)



WHILE CONGRESS RESTS

PERHAPS the outstanding event of the period covered by this review was the announcement by the President of the United States, concerning the national conference of banking, business and industrial leaders in Washington on August 26.

More than 150 leaders representing the 12 Federal Reserve districts were invited to meet with Mr. Hoover. The purpose of *this* congress is to coordinate Governmental and private business initiative so as to assure smooth working of the nation's credit machinery.

This action was foreshadowed by the President in his acceptance speech when he said, "I am today organizing the private industrial and financial resources of the nation to cooperate effectively with the vast Governmental instrumentalities which we have in motion, so that through their united and coordinated efforts we may move from defense to powerful attack upon depression along the whole national front."

RELIEF-RECONSTRUCTION

IN carrying out the reorganization of the Reconstruction Finance Corporation, President Hoover on July 26 named Atlee Pomerene, former Senator from Ohio and a Democrat, to succeed Eugene Meyer as chairman of the board, and two days later selected Charles A. Miller, Utica banker, to succeed Charles G. Dawes as president. Mr. Miller is a Republican, but the board is as now comprised predominantly Democratic. On August 3 the R.F.C. announced it had decided upon a three-point program for aiding the railways, the plan calling for the extension of credit (1) for repairs, (2) for expansion of maintenance work, and (3) for purchasing new rolling stock. The next day the board, in its first adverse decision of the kind, denied the application of Governor Pinchot of Pennsylvania for a loan of $10,000,000 to his state. Refusal was based on the contention that the state had not demonstrated that it had done all it could do from its own resources.

President Hoover on August 6 named the new Home Loan Board, placing at its head Franklin W. Fort, New Jersey Republican, long active in banking and politics.

B. E. F.

FREQUENT clashes with the police reached their climax in Washington on July 28, and Federal troops were ordered to the scene by the President, when the police confessed their inability to handle the situation. On the day that the veterans straggled into Johnstown, Pa., July 29, President Hoover issued a statement defending his action in calling out the troops. "We cannot," he declared, "tolerate the abuse of Constitutional rights by those who would destroy all governments, no matter who they may be. The Government cannot be coerced by mob violence." Later, with funds whose source was not revealed, but which were believed to have been raised by the citizens of Johnstown, deportation of the B.E.F. was begun from the Pennsylvania city on August 3, railroad fare and food being provided to get them home. (CONTINUED ON NEXT PAGE)

PRE-ELECTION

PRESIDENT HOOVER was formally notified of his nomination for reelection on August 11. In his acceptance speech, which was broadcast throughout the world, he summarized the various steps which had been taken under his direction by the Federal Government during the past three years to combat the effects of the depression. He urged a change in the 18th Amendment giving each state the right to deal with the liquor problem, subject to Constitutional guarantees protecting dry states and avoidance of the return of the saloon. He opposed cancellation of the war debts; urged joining the World Court "with proper reservations"; defended the protective tariff; opposed the entrance of the Federal Government into the power business; and favored continuance of the Federal Farm Board.

Governor Roosevelt opened his campaign for the Presidency on July 30 with a radio speech in which he urged a lowering of the tariffs "in order to make cancellation unnecessary"; also, the remonetization of silver "in order to restore the purchasing power of half the inhabitants of the world". On August 1 it was reported that Mayor Walker, if he should be removed by Governor Roosevelt as a result of hearings on the Seabury charges which commenced on August 11, would run for the governorship. Senator Borah, on August 2, declared that he would support the party in his own state, but would not support the Hoover-Curtis ticket on the Republican platform.

ABROAD

POLITICAL unrest continued in Germany during the past month, providing the most unsettling element in the progress of Europe toward stability. On July 18, following political clashes in Prussia which had taken 20 lives and resulted in injuries to more than 200, Chancellor von Papen issued a decree reinstituting the ban on all outdoor demonstrations and parades. Two days later control of Prussia passed into the hands of the Reich government, when von Hindenburg issued an emergency decree appointing von Papen the federal commissioner for the state, with full authority to depose its acting government, headed by Otto Braun, Socialist premier. The German elections held on Sunday, July 31, did little to clear the air. The National Socialists of Adolf Hitler returned 229 members to the new Reichstag, against 107 in the last chamber, but failed to obtain a clear-cut majority. In the middle of August Germany was

in a waiting attitude while a stalemate existed between Hindenburg and Hitler. Hitler, while offering assurances that he would not conduct a "Putsch", refused all compromise and demanded the chancellorship. This, Hindenburg refused to give him.

In Italy, Foreign Minister Dino Grandi, four other ministers, and eleven under-secretaries of state were relieved of their posts on July 20 in a sweeping reorganization of the cabinet by Mussolini. In addition to the premiership, Il Duce now holds the portfolios of Foreign Affairs, Home Affairs, and Corporations. In London the shake-up is believed to have resulted from the subservience of Grandi to England at Lausanne.

An abortive Royalist revolt occurred in Spain on August 9. It was put down within a few hours and General José Sanjurjo, its leader, was taken captive.

In South America, trouble broke out on July 31 between Bolivia and Paraguay in the disputed Chaco region. Nineteen Pan-American nations, joining in identical notes to the two countries, declared that they would not recognize any territorial gains made by occupation or force of arms, thus applying the policy inaugurated by Secretary Stimson in respect to Japan in Manchuria.

The British Empire Trade Conference opened at Ottawa, Canada, on July 21, and was still in session at mid-August. The most important discussions were those centering around tariff concessions to be exchanged between Canada and the United Kingdom. Guesses varied as to how seriously such an agreement would affect the United States, assuming that the Dominion and the mother country could get together on terms. One estimate was that it would affect $50,000,000 of our annual trade with Canada, on the basis of 1929 figures, chiefly in steel, anthracite, textiles, machinery, and electrical supplies. India and South Africa refused to subscribe to the theory of a self-contained British Empire.

The Irish question appeared on August 14 to have taken on a new aspect when a manifesto was issued by the Old Free State Army Comrades' Association, which virtually threatened de Valera with the formation of a "White Guard" as an offset to the "Republican Army". The Army Comrades are Cosgrave sympathizers.

On July 18, Jean Jules Jusserand, French Ambassador to the United States for 23 years, died in Paris at the age of 77. (CONTINUED ON PAGE 52)

AMERICAN BANKERS
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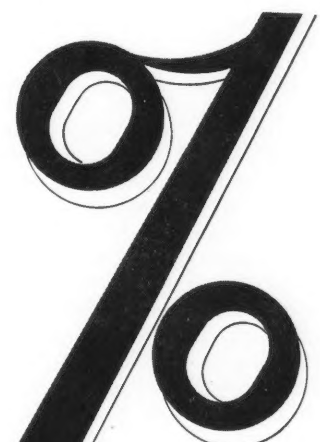
How Much Do Banks Pay for Deposits?

By FRANK W. SIMMONDS

THE most notable development in banking in this country in the last few years has been the accumulation of evidence that the profession is returning to one of its first principles. Banks are reaffirming the truth, forsaken gradually for slightly more than a century until the abandonment was practically complete three years ago, that a commercial bank is a custodian instead of a borrower of depositors' funds and that its primary function is to maintain those funds at parity of deposit rather than to act as a sort of arbitrager, sustaining existence by snatching the difference in rates between the borrowers' and lenders' market.

The practical result of this change in the banking concept has been a pronounced trend away from the payment of interest on deposits. Especially has this tendency been marked in the case of demand deposits, where the idea has taken hold so strongly that nearly half of a representative group of banks in virtually every state in the Union, recently sounded out, through their clearinghouses, by the Bank Management Commission of the American Bankers Association, have ceased entirely to allow interest on current accounts of individuals and corporations.

Most of the other half have circumscribed the payment of interest on demand deposits by the adoption of rules for free balances, deduction of required reserves (or an even greater percent-



age) before the calculation of interest, and minimum activity for accounts. Much slower progress has been made in reducing interest rates on time, savings, public and other bank deposits, but headway quite definitely has been made there, too.

The stress of economic circumstance has been responsible for the striking change that has come about in banking practice rather than the voluntary desire to reassert the banking philosophy of an earlier day. But whatever the cause, the net result has been the same; and those bankers who are the closest students of banking theory and practice are already concerned over ways and means to retain the ground that has been so hard won.

In finding a parallel for the recent change in the attitude of bankers toward demand deposits one has the choice of turning either to some of the remoter pages of banking history or to the contemporary example of a class of banks for which safety and unquestioned solvency are the chief watchwords. Reference is made to the banks of issue—the Federal Reserve Banks, the Bank of England, Bank of France, etc. They do not pay interest on deposits, and the reasons which guide their policy in this respect are not without applicability to the problems confronting commercial banks. Banks of issue are not permitted to pay interest out of fear that their policies would be less sound if they were faced with the necessity of amassing earnings large enough to maintain interest payments.

The lustre surrounding the name of a bank of issue is the greater because the safety of the funds left with it is its guiding motive; nevertheless, its profits averaged over a period of years are large enough to provide a fair return on its capital.

Perhaps in history, however, is to be found the more satisfactory approximation of the attitude recently adopted

Mr. Simmonds is Deputy Manager of the American Bankers Association, and Secretary of the Bank Management Commission of the Association

toward the commercial banking function by an increasing number of bankers. Prior to the 19th century practically all bankers in the English speaking world took the view that sufficient value was being given for the use of depositors' funds if those funds were kept instantly available not only for the depositors but also, in the form of loans, for the community as a whole. Depositors' needs even in excess of normal requirements were to be filled at all times, and at the same time the accumulation of funds was to be used with due discretion in promoting the commerce, trade and well-being of the community served by the bank, thus furthering the interest of depositors and enabling them to increase their surplus funds. If those with funds were in search of income they turned to investments, which did not decrease the amount of depositable funds but merely transferred ownership of them.

It was around the turn of the 18th century that the superficial resemblance was widely discovered between the loans which a bank makes to a customer and the deposits left with a bank. Both the deposit and the advance to a customer were loans, it was contended, and since the latter bore interest the former also should be entitled to some return. With savings and certain classifications of time deposits some degree of plausibility can be established for this contention, but in the case of demand deposits the two functions are essentially different, and the distinction between them has been more and more submerged in the last century.

The Average Interest

Regional and State Averages for the Five Types of Deposits, Based on Replies from Banks in 43 States and District of Columbia

EASTERN STATES	*Demand Deposits*	*Savings Deposits*	*Time Deposits*	*Public Deposits*	*Other Bank Deposits*
Connecticut	1.31	4.18	2.31	1.93	1.62
Washington, D. C.	1.00	3.00	3.00	—	1.00
Maine	1.50	4.25	3.50	1.75	2.00
Maryland	1.00	3.50	3.50	1.50	1.00
Massachusetts	1.11	3.57	2.04	1.50	1.39
New Jersey	1.00	3.70	2.04	1.95	1.83
New York	1.04	2.90	2.50	1.77	1.87
Pennsylvania	.89	3.18	3.19	2.08	1.85
Virginia	1.50	2.62	2.56	2.25	2.25
West Virginia	1.50	3.12	3.25	3.56	3.00
Average	1.18%	3.40%	2.79%	1.92%	1.78%
SOUTHERN STATES					
Alabama	2.12	3.25	3.27	1.43	1.75
Arkansas	0.00	3.00	3.50	1.25	2.25
Georgia	1.64	3.39	3.44	1.95	1.72
Florida	1.66	3.00	2.66	1.17	1.75
Kentucky	—	3.50	3.50	2.25	1.50
Louisiana	1.63	3.50	3.08	3.00	1.67
Mississippi	.57	3.64	3.75	1.57	1.70
North Carolina	1.33	3.00	3.00	2.17	2.00
Oklahoma	.87	3.17	3.25	2.75	2.50
South Carolina	2.00	3.33	3.33	2.08	2.00
Tennessee	.37	3.35	3.31	2.27	1.67
Texas	.37	3.00	2.80	1.61	1.85
Average	1.14%	3.29%	3.30%	1.96%	2.24%

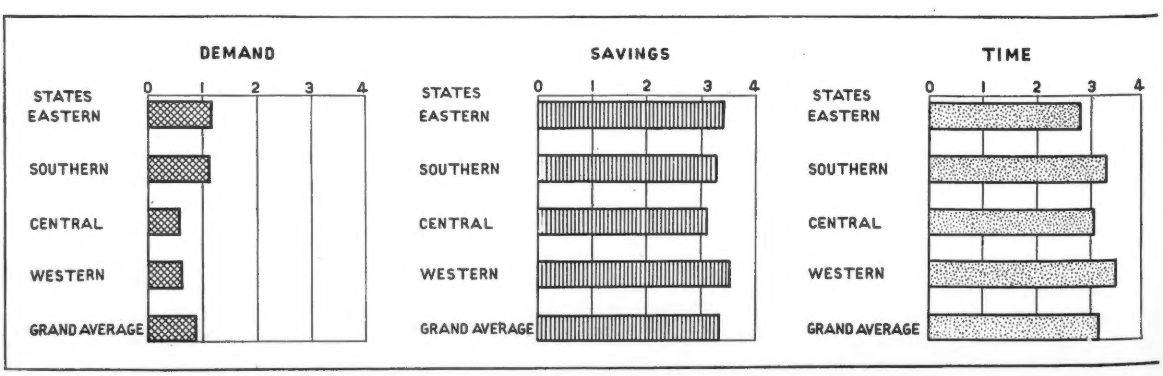
"NEW FASHIONED BANKERS"

WE find "The Bankers Magazine" in 1850 asserting that the "new fashioned bankers" allowed a certain rate of interest for money placed in their hands. The fact that the banks of Scotland followed this principle to the greatest extent no doubt hallowed the practice beyond its due. The country banks in England followed the example of their Scottish contemporaries, paying interest on the balance of a running account and charging commission on the amount of money withdrawn. It is of importance to note, however, that at that time the London banks generally did not allow interest on deposits and did not charge commission on withdrawals.

The earliest known bank in the United States to pay interest on deposits was the Farmers Bank of Maryland in 1804. But once a start was made the practice spread rapidly, arousing opposition from economists, banking supervisors and legislators as its popularity grew among bankers. In 1816 the opposition was strenuous to the payment by Philadelphia banks of interest on the deposits of other banks. Holding that the receiving of deposits at interest was "to say the least of it, very questionable," Massachusetts legislators in 1837 passed a law restricting the interest payments to accounts of the state, savings banks and other commercial banks.

The pronounced trend away from the payment of interest on demand deposits and the success in holding deposits in spite of this move are two of

These charts permit quick comparisons of the average interest rates for each type of deposit, by regions and with the grand or national average in each case



Rates on Bank Deposits

The Results of an Extensive National Survey Conducted by the Bank Management Commission of the American Bankers Association

CENTRAL STATES	*Demand Deposits*	*Savings Deposits*	*Time Deposits*	*Public Deposits*	*Other Bank Deposits*
Illinois	.23	3.00	2.59	2.04	1.46
Indiana	.48	3.23	3.18	2.05	1.87
Iowa	.14	3.50	3.50	1.97	1.64
Kansas	.52	3.00	3.00	2.03	2.11
Michigan	1.20	3.17	3.04	1.56	1.33
Minnesota	.36	3.00	3.00	1.61	1.22
Missouri	.23	3.00	3.14	1.42	1.55
Nebraska	1.37	3.00	3.25	1.56	1.62
North Dakota	.75	3.25	3.25	1.37	1.00
Ohio	.93	3.39	3.22	1.54	1.81
Wisconsin	.57	2 91	2.54	2.02	1.50
South Dakota	0.00	3.00	3.08	1.19	1.37
Average	.57%	3.12%	3.06%	1.70%	1.54%
WESTERN STATES					
Arizona	.50	4.00	3.75	2.25	1.50
California	.93	3.76	3.65	2.23	1.75
Colorado	.90	3.10	2.67	1.12	1.81
Idaho	0.00	4.00	4.00	2.00	2.00
Montana	0.00	3.17	3.17	1.58	1.75
New Mexico	1.62	4.00	4.00	1.50	2.12
Oregon	.50	3.00	3.00	1.87	1.25
Utah	.87	4.00	3.75	2.12	1.75
Washington	.67	3.00	3.25	1.75	1.33
Wyoming	.33	3.17	3.50	1.50	1.50
Average	.63%	3.52%	3.47%	1.79%	1.68%
Grand Average	.88%	3.33%	3.16%	1.84%	1.81%

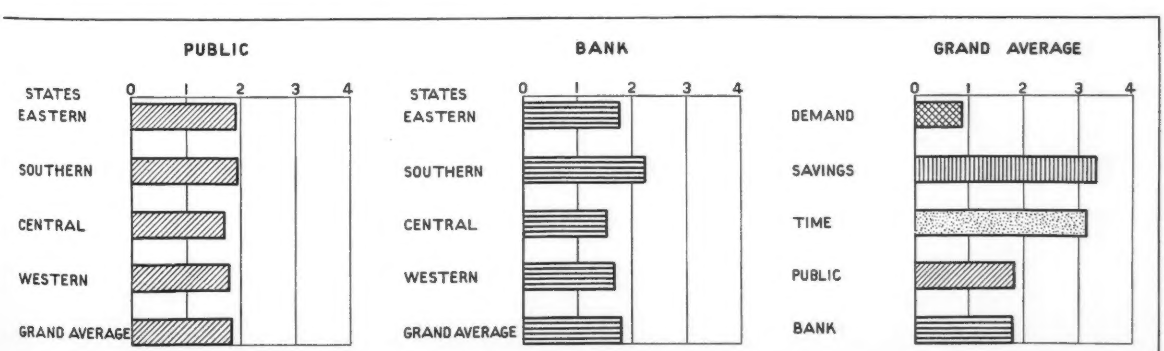
the most striking features of the nationwide survey just completed by the Bank Management Commission of the American Bankers Association into the rates of interest now being paid on the several classes of deposits by clearinghouse banks and the effect which these regulations have had on the balance of deposits. Of the 244 reporting clearinghouses the members of 111 had discontinued entirely the payment of interest on demand deposits. Members of 71 of these 111 clearinghouses supplied information as to whether they had lost deposits after abolishing interest on current accounts. Only eight of the 71 reported any loss of deposits after the change, and two of the eight explained that the loss was "not much."

Clearinghouses in 43 states and the District of Columbia replied to the Association's questionnaire. Forty-five per cent of them reported that their members were not paying interest on checking accounts. Six of seven reporting clearinghouses in Mississippi stated that their members were not allowing interest on demand accounts, while in Tennessee the proportion was three out of four, in Illinois eight of ten, in Iowa seven of eight, in Minnesota six of nine, in Missouri nine of 11, in Wisconsin six of ten, in Kansas seven of ten, in Montana three of three and in South Dakota four of four.

The Pacific Coast has been more inclined to join in the movement than the East has; in California, for instance, eight of 17 reporting clearinghouses were not paying interest on demand deposits. In Connecticut, however, the four reporting clearinghouses were still crediting interest on current accounts, as were the seven in Massachusetts. The Phillipsburg, N. J., and Easton, Pa., clearinghouses had in effect a modified plan for discontinuing interest on this class of deposit, while in New York two of seven replies indicated no interest was being paid on demand deposits. In Pennsylvania 11 of 22 had removed themselves from the group paying interest on demand accounts.

The experience of members of 71 clearinghouses freed of the responsibility of paying out interest on checking accounts offered testimony to the impunity with which banks can take the recently uncommon step of discontinuing interest on current accounts. As aforesaid, 63 of the 71 reported that their members had suffered no adverse effect on deposits from taking this step, and two more stated that their losses were small. Two of five in Iowa said their members had lost some deposits on reduction of interest rates, but whether these withdrawals were due chiefly to elimination of interest on demand deposits or to alterations of rates on other classifications of deposits was not made clear. One of six clearinghouses in Minnesota, one of two in Colorado, one of three in Montana, one of one in North Dakota and two of four in South Dakota stated that they had lost some deposits after rate changes. The experience of one South Dakota clearinghouse is revealing. It reported some deposits lost, but added that they were in the time certificate of (CONTINUED ON PAGE 60)

Note the varying progress of the non-interest-paying movement on demand deposits. The basic figures for these charts are given in the tabulation above



Strength—

"This fall when advertising takes its usual spurt after the quiet summer months, some variation of the 'strength theme' will undoubtedly dominate most bank advertising copy," say Mr. Ilg, who is vice-president of the National Shawmut Bank of Boston. "It may be built on age, on record, on personnel, on directors, or on the hundred and one other factors that go to make for security. But the basic theme will be the strength of the institution. Advertising has taken the form of insurance, bought with the idea of stopping trouble before it starts"

ADVERTISING

By RAY A. ILG

"How shall we advertise? What copy appeal will best meet our problems during the next six months?" Mr. Ilg and Mr. Brockman outline here their recommendations, based on their experience and on conditions as they see them in the East and Middle West

EFFICIENT service, friendly atmosphere, comfortable quarters—the old standbys have been pushed way back on the shelf. Today all other advertising themes are subordinated to the one key appeal—"Strength."

Banks cannot, in justice to depositors, abandon their conservative liquid positions until they have secured beyond all possibility of doubt the full confidence of the public. This means not only their depositors but also every Tom, Dick, and Mary who take it upon themselves to state "that bank is weak" or "I heard so-and-so, who heard from so-and-so that that bank is frozen." In other words the great enemy that must be licked and licked properly is rumor. Rumors cease only when they are so obviously ridiculous in the eyes of all people that no one desires the responsibility of passing them on.

The lack of confidence on the part of the public throws banking institutions into the dizzy whirl of a vicious circle. They must stay liquid to meet any demands by their own depositors and also to be in a position to assist less fortunate institutions. Liquidity of 60 and 70 per cent means that the amount of money which banks can loan to commercial enterprises is radically reduced. Tight money means that only the very prime borrowers can get credit. This naturally works a hardship on business, and poor business in turn shakes the confidence of the people in the ability of business in general and banks in particular to weather the storm.

There is one place where this circle can be broken. That is public opinion. The public must be made to take the initiative and to show a sincere confidence in banks. When the banker can feel that there will be no undue demand on him for the liquidation of deposits, then and only then can he loan more freely to business. The banker cannot safely make the first move.

Advertising's big job this fall is to promote this confidence. That is why I believe that strength, security and stability will form the fundamental background for all types of financial advertising. Not long ago the rate of interest paid was quite a factor in the shifting of accounts. It would be foolish to state that people no longer pay attention to the rate of interest, because they do; but this matter of interest is today secondary to the desire for safety of capital.

In New England the problem of securing confidence possibly is not so acute as in some other sections of the country.

For example, in New England—

Here, our task is one of solidifying and stabilizing confidence rather than regaining it. I think it can be safely said that at no time during this period have the people of New England lost confidence in their banking system, but it is true here as well as every place else that the element of *strength* has been placed high on a pedestal as the primary requisite in the selection of a depository for funds.

Bank advertising during this period does not have new business as its main objective. Advertising has taken the form of insurance, bought with the idea of stopping trouble before it starts. Bank advertising today must mold public opinion and help avoid the pitfalls of vicious and uncalled for rumor.

The bank that will grow the fastest on the upturn of business is the bank which today devotes its greatest efforts towards building loyalty and securing consistent support from present customers. Customers, taken safely through this period, will be the real new business getters when the time for that type of bank promotion and advertising arrives. (CONTINUED ON PAGE 69)

Confidence—

"The issue is clear-cut. The advertising objective is definitely pointed toward rebuilding confidence in the management of the individual banks and, upon this confidence, rebuilding deposits," says Mr. Brockman, who is assistant secretary of the Northwest Bancorporation of Minneapolis. "This can be done only by frankness. The bank that does not admit losses and charge-offs under present conditions will arouse suspicion and break down confidence to a greater degree. It is a job for each individual bank and cannot be done on a nationwide, cooperative basis"

OBJECTIVES

By W. E. BROCKMAN

Next month the JOURNAL will present the views of two other men well known in bank advertising circles, who are directing the programs of their own institutions and who are close to the banking problems of their own and other banks in the South and the Pacific West

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WHAT should be the advertising policy for banks during the next six months?

Bankers are turning this question over in their minds but few have come to any definite conclusion. Advertising agencies, publicists, and propagandists have offered many suggestions. Some advance the theory that banks should attempt to justify their policies—yea, their very existence—by a long explanation of banking operations from a mechanical standpoint. Others look to general publicity as a solution, while the ultra-conservatives believe that banks should just "saw wood" and keep their houses in order from an operating standpoint. All of these suggestions have merit to some degree—some more than others.

Behind all of this uncertainty, there is the history of bank failures, followed by the loss of confidence; the decline in deposits, reduced earnings, installation of service charges and reduction of interest; new loan policies, based upon the customer's ability to pay (the only sound way in which to loan money), and many other practices and policies that are new to the average customer. We cannot hope to change the viewpoint of the customer overnight. An elaborate advertising campaign of an explanatory nature would fail to accomplish the desired results and might even arouse suspicion. The public is in a sensitive mood and must be handled with extreme diplomacy. It is a matter of record that many of the failures of the past two years have been the result of some act that has aroused the suspicion of the public, which caused a rumor and, subsequently, the closing of a good bank.

Advertising has been looked upon too long as a "necessary evil" by many banks of the country. The history of bank failures over the past three years should prove the need for higher standards in all public relations activities, which include advertising and publicity. It has been said that the streets are full of good financial advertising men who are looking for jobs. This is a doubtful statement and has not been proved. What the country needs today is more good advertising men—more men who can feel the pulse of the public and sense the trend of public thought and then have the ability and judgment to build a program to fill the need. It is fair to predict that with advertising men of broader vision the history of bank failures would have been vastly different.

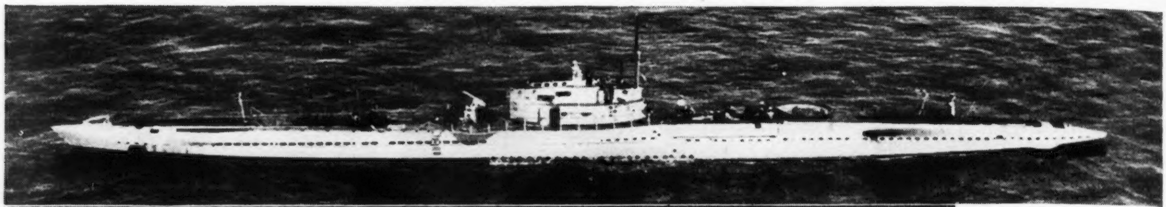
The scope of this article covers what should be the first objective for Northwest banks this year from an advertising standpoint.

During the next six months the banks of the country should inaugurate aggressive compaigns to rebuild their deposits and reestablish confidence in their own institutions. Many are discussing such programs and some are setting up programs that will be put into effect when money begins to come in from the new crops.

Curtailed expenditures have been necessary to offset reduced earnings. A good crop, even at present prices, will mean a greater volume of business for the banks of the Northwest and, consequently, opportunity for increased earnings, the liquidation of loans and perhaps a stronger bond market.

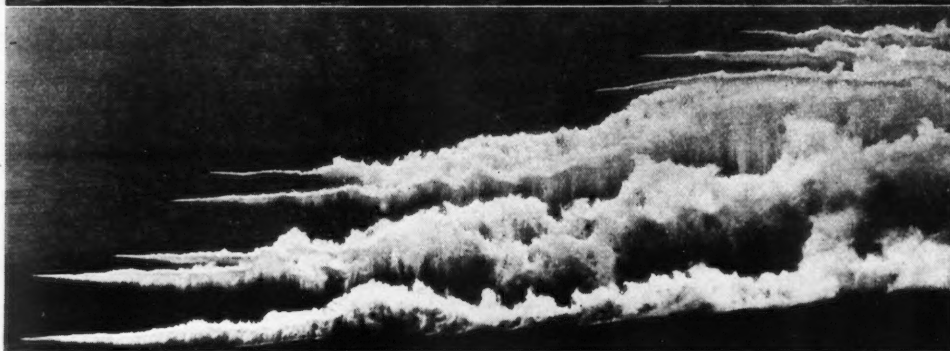
Following President Hoover's antihoarding campaign, banks in most of the large cen- (CONTINUED ON PAGE 68)

And this one in the Middle West



KEYSTONE

The War Debt Question



KEYSTONE

WIDE WORLD

New and faster type of French submarine, naval airplanes putting down a smoke screen, and new British tanks on parade

KEYSTONE

German police testing a new style of gas mask

WIDE WORLD

Italian airplanes ready for practice maneuvers

Conservatism Dominates the Political Scene

Radical Views Are Finding Very Little Popular Support

By **MARK SULLIVAN**

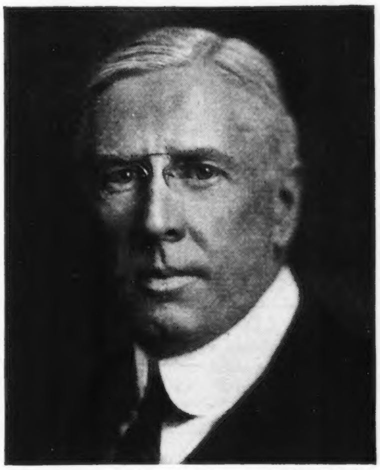
THE outstanding characteristic of this Presidential campaign, of the two national conventions and their platforms, and of the work of the session of Congress which ended in July, was conservatism, conservatism so concrete and strong as to be, under such conditions as the present, almost a phenomenon.

Any political judgment would have predicted that in a year of almost unparalleled business depression and unemployment formidable radical movements would arise in politics. The history of previous Presidential campaigns carried on in times of business recovery, is that radical movements did arise.

The facts to the contrary in the present year are so striking as to be almost sensational. At the Republican National Convention this year, the radical or progressive insurgency was smaller than in any previous Republican National Convention in recent years. The number of votes cast for the renomination of President Hoover was 1126½ out of a total of 1154. That was a larger proportion of the total than any Republican nominee has ever received in recent years.

The total number of votes cast for radical or progressive candidates at the Republican National Convention this year was only 19. The radicals or Progressives were distinctly timorous, distinctly intimidated by the conservatism of public opinion throughout the country. There was no faintest suggestion of a bolt—even in such a normal year as 1924 the late Senator LaFollette of Wisconsin led a bolt and formed a third party which in the ensuing Presidential election cast the formidable vote of 4,822,856 against the regular Republicans' 15,725,016.

The Progressive or radical elements within the Republican party at this year's National Convention were under



HARRIS & EWING

Mr. Sullivan is nationally known to bankers and to the public as an observer and analyst of current political happenings. His writings appear daily in the leading newspapers of the country. He is the author of "Our Times. The United States 1900-1925", three volumes of which have been published

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a cloud. A few weeks before, Senator Brookhart of Iowa had been defeated for renomination. Governor Pinchot of Pennsylvania had found it impossible to be elected a delegate to the convention. So had Senator LaFollette of Wisconsin; and the whole LaFollette régime in the original and continuously progressive or radical state of Wisconsin were on the defensive to a greater degree than at any time since the movement began, more than 30 years ago.

Popular support for radical men or radical thought is at a lower ebb than in any Presidential year, even years when business was normal, since the Civil War. The campaign began with no organized dissent by radicals or progressives from either party, and with no third party except the familiar and ordinarily small ones, the Socialist, Communist, Prohibitionist and another one even less formidable than these. It is now too late for any formidable third party to arise.

In the same way, the platforms of the two great parties were conspicuously conservative. The Republican platform, written in this year of intense business depression, is the most conservative ever written by any American party in any kind of year; and the Democratic platform is in this respect hard to distinguish from the Republican. Both parties adopted strong and explicit planks endorsing sound currency. The Republican platform said the party "will continue to uphold the gold standard, and will oppose any measure which will undermine the Government's credit or impair the integrity of our national currency; relief by currency inflation is unsound on principle and dishonest in results." The Democratic platform said, "A sound currency to be preserved at all hazards." To advocates of silver as a basis for currency, neither platform made the faintest concession or gave the slightest comfort, although the degree of this year's depression would have justified expectation that the "silver question" would enter into this year's campaign as fully as in 1896, when silver as a basis for currency was the chief issue. The only mention of silver in the platforms is a faint placation to a few silver mining states, with small aggregate weight in the electoral college, to the effect that the United States should be willing to participate in an international conference on silver, the aim of which would look to greater use of silver instead of paper for subsidiary currency, and the like.

As conservative as the party platforms was the sum of legislation enacted by the ses- (CONTINUED ON PAGE 67)

When savings depositors, insurance policyholders, and those dependent upon foundations realize the imminent danger of loss which may accrue through failure of Congress or of the regulatory bodies to safeguard the rate structure, there will be a day of reckoning. It is inconceivable to think of a situation, bad at present, being allowed to continue

The Rule-Bound Railways *versus* Busways and Truckways

What Is the Public Paying for This One-Sided Regulation?

By
W. ESPEY ALBIG

The proposal announced by the Interstate Commerce Commission for the division of the eastern railroads into four trunk lines gives special value to this article by Mr. Albig, who is Deputy Manager, American Bankers Association

A RETURN to normal conditions in industry is not now sufficient of itself to restore financial equilibrium to the railroads. If the answer were so simple, then the activity in trade and industry from 1924 to 1927 would have brought unexampled prosperity to the railroads. It did not. Their recuperative power had been taken away. They scarcely held their own in earnings during those prosperous business years.

The rate structure, both freight and passenger, evolved with such painstaking care over a long period of years, did not produce sufficient revenue. This failure, rendered more acute by the business and trade depression, is due in large part to the inroads made on certain types of traffic by road haulage.

Since 1921 more than $13,000,000,000 has been spent on highway improvements by the Federal and state governments. The roads parallel the railroads and now carry more than 22,000,000 private automobiles, about 3,500,000 motor trucks, and almost 100,000 motor buses.

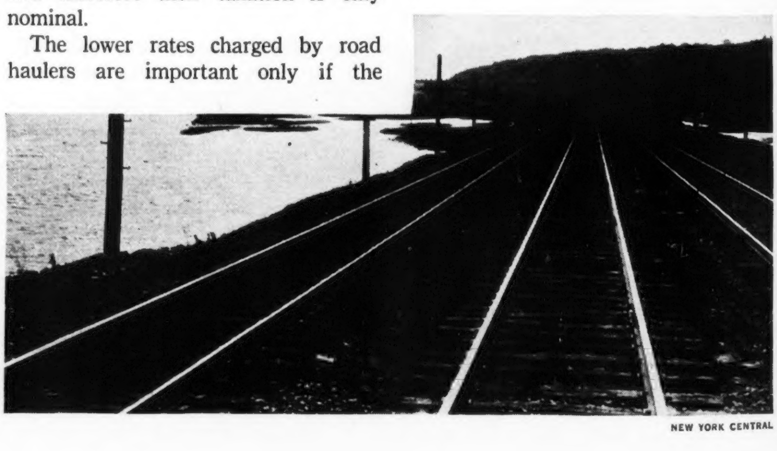
The buses and trucks have contributed little to the capital costs of the roads which they use, or to their maintenance, their traffic control signal systems or their policing. Wages of the employees are not standardized as are those of railway employees. Buses and trucks are not required to maintain "reasonable facilities," nor to establish uniform rates, nor to publish them. They are free to vary their charges as they choose and to take only the most remunerative consignments.

In the matter of taxation the advantage is all on the side of the buses and trucks. The railroads are subject to taxation on their real estate holdings and improvements by local authorities, and on their earnings by the state and Federal governments. Road haulers have no need of extensive terminals because the nature of their traffic does not require them. They own no roadways, and therefore their taxation is only nominal.

The lower rates charged by road haulers are important only if the charges on all traffic are reduced, and not only as a few items have benefit, with consequent increase on others. The unregulated advent of buses and trucks has not served to lower charges generally. Rather, it has tended to disorganize the whole structure. It snatches from the railroads the more remunerative traffic, without at the same time reducing proportionally the railroads' overhead. In consequence, the railroads haul the residue of freight, most of it of the heavy type, at little profit to themselves and with greater cost to industry.

The railroad managers have gone to great lengths to develop revenue in the face of this unregulated competition. They are, in the words of a recent statement:

"Utilizing and propose to continue to utilize even more extensively their organization in the field of research and experimentation and take all other available measures in order to secure the utmost in operating efficiency. They pledge themselves to avoid all preventable wastes in the competitive relationships between themselves, and to devise



NEW YORK CENTRAL

KEYSTONE

Eastern railroad heads when they met to hold their first joint discussion of the I. C. C. consolidation plan. From left to right: P. E. Crowley for the New York Central Lines; J. J. Bernet of the Chesapeake and Ohio; Daniel Willard of the Baltimore and Ohio; and W. W. Atterbury of the Pennsylvania

and apply the most feasible methods for meeting new competitive conditions."

Few indeed will quarrel with their frank recognition of what is due the public in transportation:

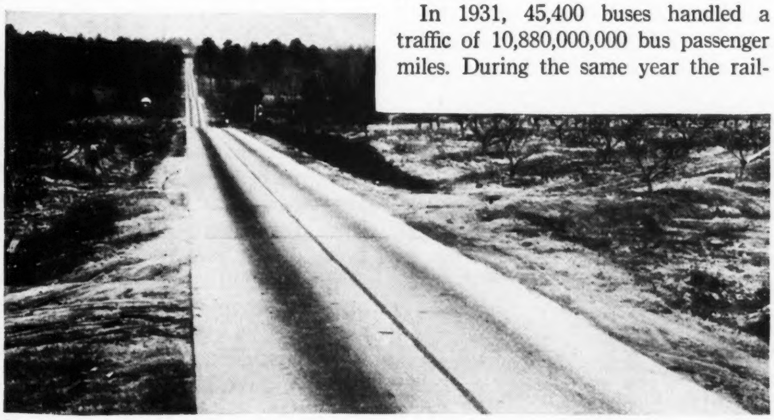
"The public is entitled to have and should have the most efficient system of transportation that it is possible to create, including all available agencies, and to use each agency in the manner and to the extent justified by its effectiveness and economic cost, but only upon terms just and equitable to all."

If the road haulers were in every case a substitute in the public interest for the railroads, if they could take the place of the railroads and furnish transportation of every kind at a lower cost, then few would be concerned about the future of the railroads, except possibly from the viewpoint of the railroad securities held by them or by the institutions in which they were interested.

To state the case only indicates more clearly its impossibility of fulfillment. The impossibility comes on the physical side. At present there is no agreement as to the amount of freight carried by motor trucks. It is estimated all the way from 2 per cent to 15 per cent of the total freight tonnage. Its inroads on the less-than-carload freight have been very marked. It has been said that 6,250,000 five-ton trucks would be required to haul the 490,000,000,000 tons of freight which was carried a distance of one mile by the Class I roads in 1929.

The effect of the transfer of this tonnage to the highways can be clearly understood when it is known that during the last seven years the production of trucks of five-ton capacity or greater was less than 2 per cent of the total production. During 1931 almost 3,500,000 trucks were registered, but about 90 per cent of this volume was trucks of less than two-ton capacity. If then the freight of the nation is to be carried in trucks with a capacity of less than two tons, more than 15,625,000 trucks in addition to those now in use would be set loose on the roads. This, however, is not all.

In 1931, 45,400 buses handled a traffic of 10,880,000,000 bus passenger miles. During the same year the railroads handled a passenger traffic of almost 22,000,000,000 passenger miles. If motor service were to supplant rail service entirely, it would be necessary to increase the present revenue buses by two times, or about 91,000, which would be approximately twice the number of revenue and non-revenue producing buses in the United States in 1931. The picture thus revealed is that of increasing the present motor vehicle traffic of 26,000,000 to about 42,000,000, or 61½ per cent. This presents an impossible situation, particularly in those areas of congested population where material of all kinds is consumed in large quantities.



KEYSTONE

Even if it were possible to mobilize and utilize road haulage in place of rail traffic, regulation would be imperative. Evidence is not lacking that road haulers are being subjected to ruinous competition among themselves. They are repeating the experience of the railroads in their early days. No sooner is it known that a trucking company is securing a reasonable profit than another company seeks to share the business.

The regulatory authorities, by observing the present fight between the road haulers, can visualize with slight imagination the struggles between rival railroads two generations ago. The road haulers realize that regulation as between themselves must come to stabilize and safeguard their own industry. Classifications are now practically unknown. They handle at a low freight rate and at express speed products which the railroads would classify at higher freight rates or as (CONTINUED ON PAGE 56)

IN theory, the safety of trust assets is assured by two fundamental principles of trust administration—one being separateness or segregation, and the other being special safeguards.

By separateness we mean that the trust assets are kept separate from the bank's own assets, that the assets of one trust are kept separate from those of every other trust, that there is a separate department for trust business, separate vaults, separate officers and employees, separate books, separate audits —separation throughout.

By special safeguards we mean that, in addition to the fidelity bonds that apply equally to all of the officers and employees of the institution, uninvested trust funds are protected either by the deposit of securities by the trust institution or by the preference that the statutes give trust deposits over general deposits. As to the safeguards thrown around invested trust funds, we mean the special vault equipment, vault control and frequent audits provided by trust institutions for their trust securities and other investments.

How Trust Assets Met the Test

By GILBERT T. STEPHENSON

ACCORDING to the records of the state banking commissioners and of the Comptroller of the Currency, of the banks that were suspended during 1931 only one in seven was a trust institution. The trust assets held by the suspended banks were, with a few exceptions, comparatively small in amount, and the trust assets that were involved were fully protected, so that no loss and little or no interruption of service resulted to the beneficiaries.

We are taking the full year 1931 as being the best possible period for which to make a study of the trust assets of suspended banks. Certainly it will be remembered as the year when there was an unusually large number of bank suspensions.

During 1931, 2,298 banks were closed, of which 409 were national banks and 1,889 were state banks and trust companies. Of the 1,889 state banks and trust companies, only 108 or 5 per cent were members of the Federal Reserve System.

These suspensions represented every section of the country. Only three states —namely, Delaware, Rhode Island and Vermont—and the District of Columbia were so fortunate as not to have any bank suspensions, state or national, during 1931.

In presenting this national statistical summary of the trust assets of banks suspended during 1931, Mr. Stephenson reveals a highly gratifying record for our institutions. He is vice president of the Equitable Trust Company of Wilmington, Delaware

UNDERWOOD

Corporate trusteeship has stood like an oak during these difficult years

The same year, it is worth noting, 276 banks were reopened, of which 25 were national banks and 251 were state banks, 31 being members and 245 being non-members of the Federal Reserve System.

TRUST ASSETS vs. SUSPENSIONS

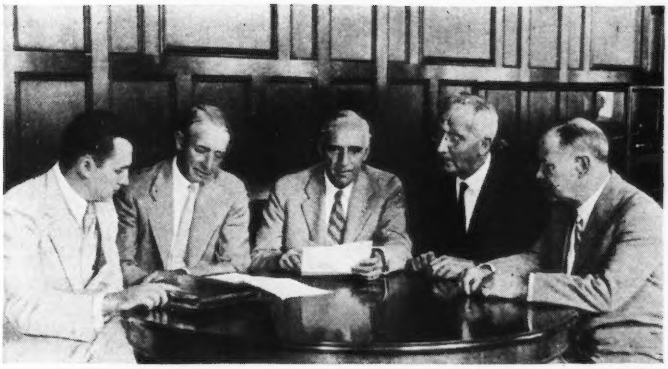
NATIONAL Banks. On January 1, 1931, there were 6,973 national banks (treating a national bank and all its branches as one). Of these, 1,856 had established trust departments. Of the 1,856 only 59, or only 3 per cent, were suspended during 1931. Of $5,225,000,000 of trust assets held by national banks, only $75,500,000 were being administered by the 59 suspended banks, half of that amount being in one bank alone—namely, the Bank of Pittsburgh, N. A.

State Banks And Trust Companies. We have been able to secure statistics as to the number of suspended state banks and trust companies that had any trust assets, from all but seven states—namely, Indiana, Iowa, Missouri, New Jersey, Oregon, South Carolina and Tennessee. We have not been able, in all cases, to ascertain the volume of the trust assets involved.

Of the 1,889 state banks and trust companies suspended during 1931, 1,416 were located in the 42 states (including the District of Columbia) for which we have the figures. Of these 1,416 suspended institutions, only 190, or 13 per cent, located in 22 states, had any trust assets. In 20 of the 42 states—that is, in practically one-half of the states reporting—the suspended state banks and trust companies had no trust assets at all.

Even though we do not have the amount of trust assets involved in all the state banks and trust companies suspended during 1931, we do have the figures for 143 of the 190 that were suspended. In the case of those 143 institutions, the trust assets vary in amount from a few dollars only, to several million. In one state, for example, the total amount of trust assets of suspended state banks and trust companies was only $88.16; in another, $1,209.48; in another, $10,000; in another, $20,803.99. In only five of the 19 states from which we have figures, did the aggregate trust assets of all the suspended state banks and trust companies in that state amount to as much as $1,000,000; and the average for the 143 institutions, including the large (CONTINUED ON PAGE 63)

The Federal Home Loan Bank Act



KEYSTONE

The initial step in the establishment of the System was taken on August 6 when President Hoover appointed the five members of the Federal Home Loan Board. They are shown here at their first meeting in Washington. Left to right: H. Morton Bodfish, Chicago, Democrat and executive manager of the U. S. Building and Loan League; Nathan Adams, Dallas, Democrat and president of the First National Bank of Dallas; Franklin W. Fort, New Jersey, Chairman of the new Board, Republican and a former member of the House of Representatives; Dr. John M. Gries, Republican and chief of the Division of Building and Housing, U. S. Department of Commerce; and William E. Best, Pittsburgh, Republican and president of the U. S. Building and Loan League

By
THOMAS B. PATON

The accompanying article summarizes this new Act. Mr. Paton is General Counsel of the American Bankers Association

THE approval by President Hoover on July 22, 1932, of the bill to create Federal Home Loan banks completed the legal foundation for a permanent system of Federal banks designed to make advances to borrowing institutions on paper secured by first mortgages on small homes and to function side by side with the Federal Reserve System and the Federal Farm Loan System in our national credit structure.

The underlying purpose which prompted the suggestion of this legislation by President Hoover was to aid the small home owner. It is estimated that there are some $20,000,000,000 in mortgages on small homes today, of which upwards of $7,000,000,000 are held by building and loan associations, a like amount by insurance companies, and the balance by savings and other banks and private investors. In the report of the Home Loan Bill to the House and to the Senate, it is stated that the System will provide a reserve agency, whereby institutions loaning on home mortgages can raise funds upon their security, which funds will be used to (1) refinance existing mortgages so as to permit smaller payments and to accommodate the needs of withdrawing members and depositors, (2) tide over or carry on worthy borrowers who cannot meet interest or installment payments, (3) assist borrowers in paying taxes and insurance, (4) provide funds for modernization, repairs and maintenance of existing homes, (5) provide funds to refinance the thousands of short-term mortgages which have been called for payment and which the institutions are not in position to renew, and (6) provide funds for such building of small homes as may be desired and needed in many localities.

The new law, however, contains no provision under which the borrowing institution is required to use the borrowed funds in any particular way and it remains to be seen to what extent the proceeds of rediscounted mortgages will be used for the benefit of the home owner as distinguished from being utilized solely for the benefit of the borrowing institution. The matter will doubtless be covered by regulations.

To establish the System the country is to be divided into from 8 to 12 districts in each of which a Federal Home Loan bank will be located, and the banks will be under the supervision of a Federal Home Loan Board of five citizens who are Presidential appointees, subject to Senate confirmation. The Board will, with the approval of the Secretary of the Treasury, fix the minimum amount of capital of each bank, which must not be less than $5,000,000, and open subscription books in each district. Each of the banks is to have 11 directors, two appointed by the Federal Board, three elected by small-sized members, three by medium-sized members and three by large-sized members. All directors are appointive until the members' investment in capital stock reaches $1,000,000.

SOURCES OF FUNDS

THE principal funds will come from:

(1) capital subscriptions of members and from equivalent deposits of non-member borrowers, the latter being institutions which are authorized to secure advances but without charter power to subscribe to the stock, they being admitted to the borrowing privilege equally with members upon deposit with the bank of cash and Government securities instead of stock subscriptions. Each institution eligible to become a member must subscribe an amount equal to 1 per cent of the aggregate unpaid principal of the subscriber's home mortgage loans and not less than $1,500;

(2) the initial subscription of the Secretary of the Treasury, who will subscribe such part of the minimum capital which is not subscribed by members within 30 days after the opening of subscription books, not to exceed $125,000,000, the funds to come from the Reconstruction Finance Corporation;

(3) the proceeds of sales of bonds which have long-term maturities and limited tax preferences and are secured by obligations of the borrowers and deposit of home mortgages; and

(4) deposits received from members and non-member borrowers which deposits are not subject to check and will bear not exceeding 2 per cent interest.

CHARACTER OF LOANS

THE bank is authorized to make loans to members and to non-member borrowers upon the security of home mortgages, which means first mortgages upon real estate owned in fee simple or leaseholds held under renewable lease for not less than 99 years, upon which there is

located a dwelling for not more than three families. Advances will be made upon the note or obligation of the borrowing institution so secured, bearing such rate of interest as the Federal Home Loan Board may approve or determine. The bank has a lien upon the member's stock as further collateral for all its indebtedness.

LIMITATIONS ON LOANS

ADVANCES on amortized and installment mortgages of a term of eight years or more are limited to an amount not in excess of 60 per cent of the unpaid principal of the home mortgage loan and in no case can the amount of the advance exceed 40 per cent of the value of the real estate securing the home mortgage loan. In the case of advances on straight mortgages or on mortgages of shorter duration, the advance is limited to an amount not in excess of 50 per cent of the unpaid principal of the home mortgage loan and in no case can it exceed 30 per cent of the value of the real estate security.

It is seen from the above that more money can be advanced on amortized installment mortgages running for a term of eight years or more than upon straight mortgages or mortgages of shorter duration.

In addition to the above limitations as to amount of loan, the law further provides that no home mortgage shall be accepted as collateral security if (1) the loan has more than 15 years to run to maturity, (2) the value of the real estate exceeds $20,000, or (3) the loan is past due more than six months when presented. There is a further limitation that the aggregate outstanding advances to any member must not exceed 12 times the amounts paid in by such member for outstanding capital stock, nor 12 times the value of the security required to be deposited in case of advances to a non-member borrower.

ELIGIBILITY AS BORROWERS

CONCERNING the institutions eligible to obtain advances as members or non-member borrowers, the Act provides that "any building and loan association, savings and loan association, cooperative bank, homestead association, insurance company or savings bank shall be eligible to become a member of or a non-member borrower of a Federal Home Loan Bank" if (1) duly organized under state or national law, (2) subject to inspection and regulation under the banking laws or under similar laws of state or United States, except that building and loan associations not subject to inspection under state law are made eligible upon subjecting themselves to such inspection and regulation as may be prescribed by the Board, and (3) if it "makes such home mortgage loans as, in the judgment of the Board, are long-term loans (and in the case of a savings bank if in the judgment of the Board, its time deposits as defined in Section 19 of the Federal Reserve Act warrant its making such loans)." However, no institution will be eligible if, in the judgment of the Board, its financial condition is such that advances may not safely be made to such institution or the character of its management or its home financing policy is inconsistent with sound and economical home financing or with the purposes of the Act. Institutions can only receive advances from the Federal Home Loan bank of the District where their principal place of business is located or from a bank in an adjoining district if demanded by convenience and then only with the Board's approval.

In addition to the institutions above specified the Act further provides that "any home owner who comes within the limits of this Act and who is unable to obtain mortgage money from any other source may obtain same from any bank organized under this Act, provided that this subsection shall not be effective when the Federal Government has had its stock retired."

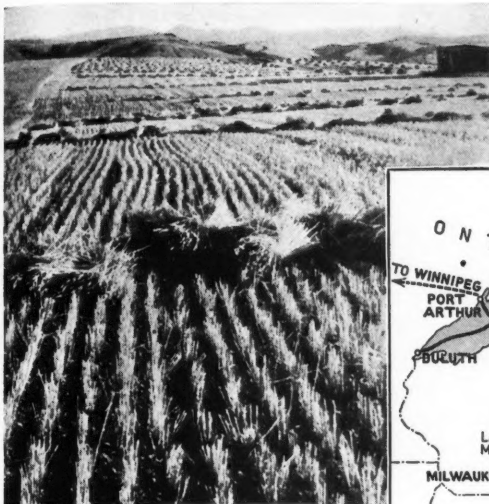
There is a further provision making eligible to membership any state organization subject to inspection and regulation under banking or similar laws if (1) organized solely for the purpose of supplying credit to its members, (2) if its membership (a) is confined exclusively to building and loan associations, savings and loan associations, cooperative banks and homestead associations, or (b) is confined exclusively to savings banks; and if (3) of the institutions to which its membership is confined which are organized within the state, its membership includes a majority of such institutions.

The Act also contains the following provision relating to institutions organized under Federal law:

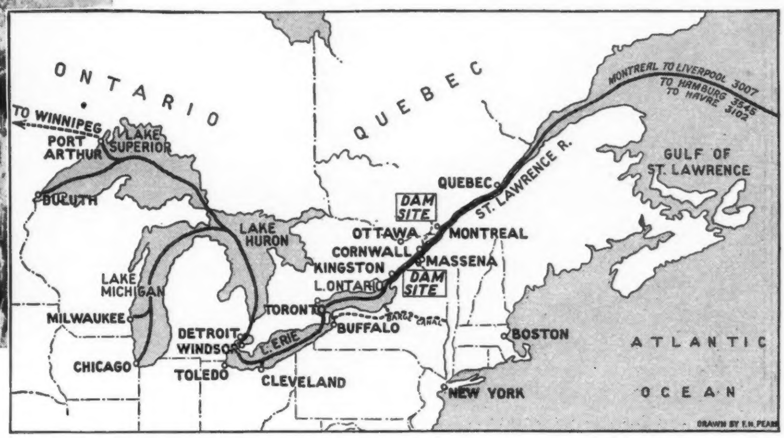
"Sec. 27. Any institution, except a national bank, trust company, or other banking organization organized under any law of the United States, including the laws relating to the District of Columbia, shall be authorized to subscribe for stock of a Federal Home Loan Bank if otherwise eligible to make such subscription under the terms of this Act, any provision in any such law to the contrary notwithstanding."

It will be seen from the above that aside from individual home owners who are made eligible to secure advances from Home Loan banks, where unable to obtain loans from any other source but only so long as the Government remains a stockholder, certain classes of eligible institutions are specifically named, viz: —building and loan associations, savings and loan associations, co-operative banks, homestead associations, insurance companies and savings banks; and that certain other classes of institutions are specifically excepted or excluded from the privilege, namely: national banks, trust companies or banking organizations organized under any law of the United States or the District of Columbia.

A pertinent question arises whether the term "savings bank" is to be interpreted as comprehending a state bank or trust company organized under state law, part of whose functions is to receive savings or time deposits and loan money on mortgages. It will be noted that the eligibility of savings banks is limited by the law to those institutions whose "time deposits as defined in Section 19 of the Federal Reserve Act" warrant, in the judgment of the Board, the making of home mortgage loans. Section 19 of the Federal Reserve Act defines time deposits to "comprise all deposits payable after 30 days, all savings accounts and certificates of deposit which are subject to not less than 30 days' notice before payment." The Act does not limit the membership to mutual savings banks and there are in the country many stock savings banks which do a commercial as well as a savings bank business and many commercial banks and trust companies which, without having the name of a savings bank as part of their title, nevertheless conduct the business of a savings bank as part of their gen- (CONTINUED ON PAGE 54)



The agreement by the United States and Canada on the projected St. Lawrence waterway will open up a direct route to the sea for our own middlewestern and northwestern cities and states, and for the Canadian wheat fields. In the accompanying article Sir John Aird gives some interesting facts about the Dominion's 1,000-mile wheat belt



Wheat—from Winnipeg West

Canada's Situation and the Problem of a World Surplus

By
SIR JOHN AIRD

A native Canadian and a director in numerous Dominion industrial and financial enterprises, Sir John Aird is president of the Canadian Bank of Commerce. He entered the service of that institution in 1878

WHEAT-GROWING in Canada on a large commercial scale is a comparatively recent development. It dates from the latter part of the 19th century, when the prairie lands of the West were the scene of a great influx of settlers. It underwent its most marked expansion between 1910 and 1920 when the production area more than doubled from 7,395,400 to 16,841,174 acres.

Wheat, however, has been an active factor in the economic and political life of Canada for nearly 100 years. The construction of canals along the St. Lawrence waterway in the 40's, and of the first important railways in the 50's, was undertaken primarily to attract wheat shipments from the western American states. In both cases these transportation facilities failed to accomplish their original objectives, but were turned to good account in building up agriculture and industry in Canada. The development of the present network of railway lines in Canada, the deepening of the St. Lawrence ship channel and of complementary canals such as the Welland, the extension of port facilities at Montreal, Vancouver, Halifax and St. John, the creation of the world's largest grain terminal at the head of the Great Lakes and the expansion of lumbering in British Columbia—all these are directly related to the opening up of the Western grain belt, which stretches for about 1,000 miles, from the eastern border of the Province of Manitoba to the foothills of the Rocky Mountains.

Correlated with this great industry also are coal-mining and manufacturing throughout Canada; in fact, it is difficult to name a single branch of Canadian commerce that is not influenced in some degree by wheat growing. The two most notable exceptions, metal mining and paper manufacture, are to be regarded as new sources of national income which have assisted materially in offsetting the sharp drop in wheat revenue which we have suffered during the last three years.

Before we follow the tortuous course of the international wheat market in recent years, let me state the outstanding advantages that Canadian soil and climate offer the farmer who makes wheat his chief crop. The world average yield for the last decade has been 14½ bushels per acre, but so suited to the production of wheat are the soil and climate of Canada that the average yield for the same period has been about 17 bushels per acre. A reservation must now be made lest this picture become too ideal: the yield in Canada is subject to extreme variation, so that it is difficult for the farmer to be sure of his earnings.

Recently there appeared in the daily press a statement that, other things being equal, the millers of Scotland would continue to use large quantities of Canadian wheat. The reason for this is that flour made from Canadian wheat, or flour which contains a good proportion of Canadian wheat, makes unusually good bread.

Let us now examine the international wheat situation in order that we may be able later to bring the Canadian situation into correlation with it, and learn why Canadian wheat, once a highly remunerative commodity which served to stimulate the life of the entire business community, has become a national problem engaging the best minds in the country. It is but five or six years ago that an American observer stated that "Western Canada was the brightest spot

on the world's commercial map", whereas today, to quote another authority on a world situation which has its counterpart in Canada:

"This wheat problem is a world problem. To ignore its international aspects is to hinder the solution of even national wheat problems. It is a persisting problem. It came to the fore in 1928-29, it failed of solution in 1929-30, became more severe in 1930 and 1931, and continues without material alleviation in 1932. The core of the wheat problem is this: how may world wheat consumption be increased and/or new wheat supplies so reduced that wheat stocks, and carryovers plus new crops, will no longer be abnormally heavy, and so that prices may rise to levels remunerative to those producers who can survive the strain of readjustment?"

All major wheat producers are placed in the same predicament, and since Canada's position, therefore, is not unique, I have no intention of attempting to place the responsibility on the shoulders of any group in the country. As has already been stated, surplus wheat is the main problem. This is just as true of Canada as of the world at large, but it is interesting to note how the surplus of wheat in Canada grew to its present proportions.

In 1924 there was a small wheat crop in Canada and the surplus that had been stored up in 1923-24 was insufficient to prevent a real shortage. Year by year thereafter more and more land was sown with wheat, and although there were variations in the yield, yet the total amount of wheat produced increased steadily. In 1928 there was a bumper crop in Canada, and nature smiled with equal favour on the United States, Argentina, Germany and the Danubian exporting countries. Conditions were not so favourable in Australia, India and Russia, but the crop of 1928 was nevertheless one of the largest ever harvested. The influence of this was all the more pronounced because of the fact that the world crop of 1927 was also a large one.

THE EUROPEAN FACTOR

AS a result of the bumper crop of 1928 huge quantities of wheat were stored in Canada and made up an enormous surplus. There were, however, favourable conditions of demand in 1928-29 and Russia was not as yet in the export market. No unpleasant anticipation, therefore, existed as to the chance of disposing of the surplus. In 1929 there was a sharp fall in wheat production in all the exporting countries, and it appeared as if there would be a shortage comparable to that which followed the crop failure of 1923-24. On the other hand, nature favoured the importing countries in Europe, and there were high yields not only of wheat, but also of coarse grains and potatoes. Agriculture had been recovering steadily in Europe since the peace treaties were concluded, and one bumper crop had been harvested in 1925, but the 1929 crop was even larger. There were also in 1929 large carryovers of cereals, whereas these had been small in 1925. The capriciousness of nature in 1929 in seeming to correct the export surplus in Canada while at the same time lessening the demand in Europe for foreign wheat by providing that continent with a bumper crop, is to be carefully noted, for the European market is of major importance in the export of wheat from Canada.

An independent factor was also in the field: the economic depression had begun to have an effect on the export market in Europe in the summer and autumn of 1929. The short harvest of 1924 had been accompanied by substantial economic improvement in Europe, but the 1929 North American shortage came at the other end of an economic cycle. The year 1924 was marked by the Dawes Plan, the export of capital to Europe, and a rapid acceleration of recovery there. (CONTINUED ON PAGE 56)

GREAT BRITAIN'S DELEGATES TO OTTAWA

Mr. Thomas — Mr. Baldwin — Mr. Chamberlain

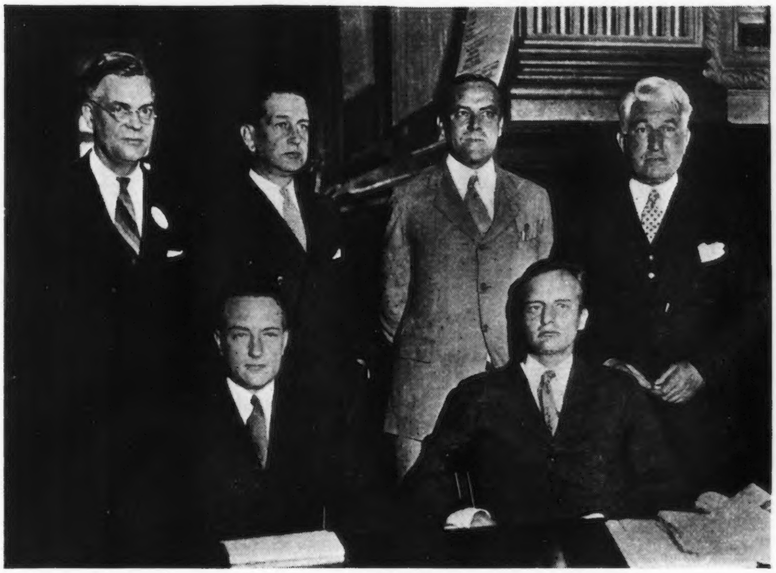
KEYSTONE

It seems to me that the theory of imperial preference is simple. It is give and take. Canada gives wheat, lumber and takes shoes, steel. What the Empire needs is a more constant spirit of compromise and a willingness to sacrifice for the common good

Quite so—

This whole business, as I see it, is more political than economic. The same thing happens every time we try to establish some kind of imperial economic unity. The voting public will never be Empire-conscious if it is going to cost them very much money

These leaders, and delegates from many states, attended the first organization meeting of the National Economy League, formed with the aim of obtaining drastic cuts in compensation payments to "non-disabled veterans." Seated: Commander Richard E. Byrd, chairman pro-tem; and Archibald Roosevelt, national secretary pro-tem. Standing, left to right: Congressman Royal C. Johnson, South Dakota; Harold Beacon, Chicago; Granville Clark, New York; and George Rossetter, Chicago



November 8th—Defeat or Victory for Spendthrifts?

The process of protest, oratory, petition circulation, organization and ultimate action was probably what Lincoln had in mind when he said that the people, given the facts and convinced of the need, almost always will "wobble right"

WHOEVER seeks public office this fall—whether it is the Presidency of the United States or a back seat in a state legislature or city council—is making it clear that he believes he can do one of two things. Either he can cut a generous slice from the cost of government or by some adroit legerdemain he can persuade a country impatient of high taxes that it does not really want them reduced after all.

Rarely has a campaign for a purely civic objective attained national scope, clear purpose, man power and momentum with the swiftness that has marked the rise during the past year of the movement to reduce the cost of government. Much of this growth has come since the days in late spring when Congress started a robust "economy program" which finally resulted in a badly mangled economy bill from which most of the really promising features had been removed.

It used to be that waste and extravagance in government, excessive taxes, "pork barrel" expenditures and their economic ill-effects were the exclusive concern of zealous reformers and individuals whose sense of the fitness of things was being offended. For some years—up to about 1927—such organizations as the National Tax Association, the National Municipal League and societies in the fields of economics, sociology and political science, exercised a rather rigid custodianship over the nation's sense of alarm about rising costs of government. But no one else was much interested.

Then the movement widened out appreciably. The economic studies of the National Industrial Conference Board began to disclose serious impediment of the free flow of trade and commerce by artificial and unnecessarily high tax barriers. Business men began to prick up their ears. The Chamber of Commerce of the United States, long interested in the equities of Federal taxation, began to reflect in its reports a sense of business uneasiness about rapidly mounting tax costs. It started the long, patient drive to convince the country that it was not economically healthy to devote 15 per cent of each year's national income to the expenditures of government.

Soon it was joined by powerful company. From the tax committee of the American Bankers Association came word of how the urge to avoid excessive taxes was tempting banks to make alterations in their capital structure. The Investment Bankers Association began to wonder just how far generations yet unborn could be relied upon to honor the bonds which states and municipalities were issuing in increasing amounts. Inflation of real property values in desperate attempts of overtaxed owners to put property to uses for which it never was intended (notably the subdividing of farm land remote from cities) drew a barrage from the National Association of Real Estate Boards. When overtaxed dwelling sites began to be utilized for apartments, and when what normally should have been low-cost warehouse areas began to bristle with additional office buildings, the National Association of Building Owners and Managers started to wonder what would be the fate of income properties in which 16 per cent of the gross income was earmarked for taxes. And there were other similar instances. Every business commenced to be uncomfortably sensitive to tax increase. But up to that point, the fight was largely confined to those who were being directly hurt or whose future security was being jeopardized.

Then came the depression, with its deflation of (CONTINUED ON PAGE 42)

EDITORIALS

Starting from Here

IT will be a year or two before we discover what Congress accomplished at the last session. All we know now is that certain unusual steps were taken to meet the emergency, and that American banking for the time being must operate under a new set of rules and conditions, the exact meaning of which no one knows.

Last September the National Credit Corporation, forerunner of vast changes, had not yet been publicly discussed. There was no hint at that time that the credit of the United States Government would finally have to be pledged to halt deflation. The National Credit Corporation now seems a small item indeed in the whole familiar category of depression legislation.

The Reconstruction Finance Corporation, the Home Loan Bank System, wider circulation privileges for national banks, the Glass-Steagall Act, the amendment to the Federal Reserve Act permitting the Reserve Banks to discount for individuals, partnerships and corporations, relief measures of a kind having no precedent in American history, and various taxes whose effect on banking, business and investments will long remain an unknown quantity—these are new factors in banking which did not exist a year ago. Moreover, the list does not include the banking reform bill sponsored by Senator Glass, the last word, the chef-d'œuvre of all depression legislation, which is high on the order of next December's business in Washington.

Surely this is enough to affect the course of economic development in any nation, even one as set in its habits as the United States.

A NEW ORDER

PRESIDENT HOOVER said in his speech of acceptance that emergency measures should be set up "in such form that once the emergency is passed they can and must be demobilized and withdrawn, leaving our governmental, our economic and our whole social structure, strong and whole". The decay of public confidence earlier this year required the boldest possible action and the President's reconstruction program was based on necessity. Yet history shows that emergency laws and institutions often have unexpected vitality and a tendency to take root, to live and to become a permanent part of the political scenery.

In the home loan measure are dozens of innovations and experiments, any one of which, in less troubled times, would have been the subject of extensive research and long debate. Will this system be demobilized and withdrawn after the emergency?

The granting of power to the Federal Reserve Banks to deal directly with the public changes a fundamental theory of our central banking system as completely as though one picture were rubbed out and another substituted. Will this change be revoked in 1933 or 1934?

And the Reconstruction Finance Corporation—can anyone be sure that the great banking organization now being built up in the Capital of the United States and throughout the nation to lend money on sound collateral, will evaporate with the depression, that it will be "demobilized and withdrawn?"

Meanwhile, temporarily or not, it becomes the chief task of banks to accommodate themselves and their expectations to the existence of a new and highly centralized economic order in the United States.

It Can Be Done

DURING 1931 the growth and volume of the personal trust business under the administration of one of the great metropolitan trust institutions was as follows: Starting with 1928 as 100 per cent, in 1931 this company had 160 per cent. Between May 1, 1931, and May 1, 1932, the volume of new trust assets received by a medium-sized trust institution in a city of 100,000 population was two and one-half times the volume of new trust business received during the preceding 12 months, which latter period also showed a very substantial increase over the preceding 12 months' period.

War Debts Are an Obstacle

ARGUMENTS in favor of cancelling the war debts are unanswerable. They are so logical, in fact, so reasonable, that they apply with equal force to all debts everywhere. A debtor, relieved of his burden, is undoubtedly in a position to resume buying.

But the very fact that arguments in favor of cancellation are true, simple and economically sound, makes it doubly necessary to proceed with caution. One taste of cancellation might be enough to start a pernicious habit. A nationally known financier said ten years ago that cancellation of the debts, particularly those parts contracted after the armistice, would lay an axe to the roots of international finance.

The debts as they stand are certainly an obstacle to recovery, but cancellation is a lazy and reckless solution. Some way must be found to keep the record clear. Cancellation would be as dangerous to Europe as to the United States.

KEYSTONE

THE MONTH

Trout and solitaire—According to reports only partly confirmed, the national contest for the Presidency is becoming more and more intense

UNDERWOOD

UNDERWOOD

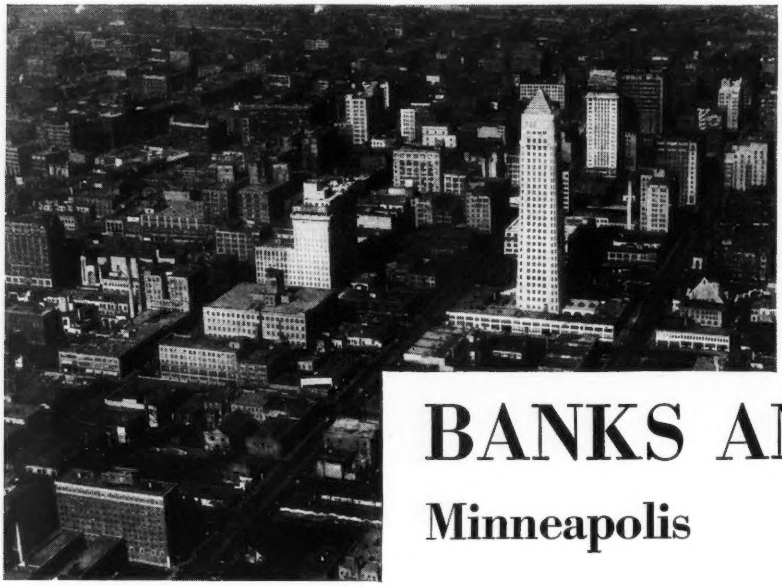
Roy D. Chapin succeeded Robert P. Lamont as Secretary of Commerce. Someone asked Mr. Chapin why he thought the depression was about over. He said: "Because people are tired of it", which, after all, may be sound economics

KEYSTONE

Atlee Pomerene, new Chairman of the Reconstruction Finance Corporation, is "not unmindful of the great compliment" of being chosen to guide the operations of our largest banking institution

UNDERWOOD

What to cancel next? Senator Borah in Minneapolis said the allied debts should be amputated. In the same issue of the New York Times reporting this speech was a Berlin story saying that Germany, relieved of reparations, wanted similar relief from private debts as well



UNDERWOOD

The main business district of Minneapolis, with its banks and the principal shopping area in the foreground and the wholesale district lying just beyond. With St. Paul—its neighbor, rival and partner—the "Twin Cities" serve an urban population of over 800,000 and a trade territory that embraces Minnesota, North Dakota, South Dakota and Montana, and the northern parts of Nebraska, Iowa, Wisconsin and Michigan

BANKS AND CITIES

Minneapolis

By HERBERT MANCHESTER

MINNEAPOLIS, which half a century ago revolutionized flour milling in America, has maintained her leadership as a flour making center. Her milling has made her the heart of the old Northwest. The wheat from many millions of acres is hurried along the routes of transportation to her mills, and from those mills come flour, other milling manufactures and supplies; and from the banks of Minneapolis comes the capital that keeps the valleys of the upper Mississippi and Missouri Rivers throbbing with commercial life.

Because Minneapolis is the mill of the great wheat states, she is also their chief producer of other necessities, their great wholesale market and their financial source for the funds that keep industry in action.

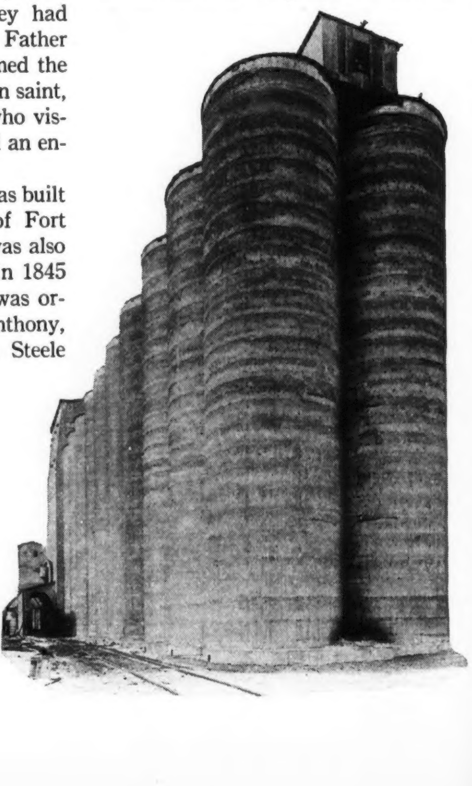
The widely extended and dominant wheat industry has created far-reaching mutual interests among the banks of the wheat states, and as a result we find the development of two great groups of affiliated banks—the First Bank Stock Corporation and the Northwest Bancorporation—each with more than a hundred units centering at Minneapolis and radiating throughout the whole Northwest.

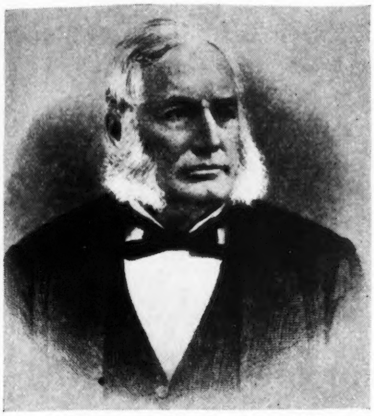
The prime mover of all this industry, provided by Nature herself, was the Falls of St. Anthony to which Minneapolis owes her existence. There were many early settlements throughout the country near waterfalls or rapids, but most of our great cities were located on harbors, at the mouth or bend of a river or at the head of a lake; and of the mill sites only Minneapolis and Rochester —which preceded Minneapolis as a great flour milling center—have become cities of the first rank. Falls and rapids, which are returning to importance since the development of hydro-electricity, were over-shadowed for a period by steam power, but in the early days they were recognized as of great importance. In those times they afforded the best power available, and the early books of travel depict the falls not merely as a pretty picture, but because they had practical value for settlers. So Father Hennepin, as early as 1680, named the falls of St. Anthony for his patron saint, and Captain Jonathan Carver who visited the locality in 1766 included an engraving of the falls in his book.

The first sawmill at the falls was built in 1822 by the commandant of Fort Snelling, but this early project was also adapted to grind a little flour. In 1845 the settlement east of the falls was organized as the village of St. Anthony, and three years later Franklin Steele built a flour mill there. This marked the beginning of the industry in that section although, with a great supply of timber in the pine forests just to the north and with no wheat on the prairies, the first important milling activities at the falls were in lumber.

In 1854 the Fort Snelling reservation was opened to settlers who at once occupied the site of Minneapolis. This was organized as a village the next year.

There were private bankers in Minneapolis the first year of the village. Sidle, Wolford and Company in 1857 started business as bankers and brokers and in 1860 formed the Bank of Minneapolis as a state bank. It was authorized by the state to issue bank notes secured by state railroad bonds, but the legality of these bonds was disputed and created difficulties. So, after the national banking system was in-





Dorilus Morrison, first mayor of Minneapolis, was the first president of the Northwestern National Bank established in 1872

augurated, Jacob K. Sidle in 1864 reorganized the Bank of Minneapolis as the First National Bank of Minneapolis. He served as president and his brother, H. G. Sidle, was cashier. This institution is the oldest bank in Minneapolis and is now the center of the First Bank Stock Corporation group.

The other famous pioneer bank of Minneapolis, the Northwestern National Bank which is the center of the present Northwest Bancorporation group, had just as distinguished a first president——Dorilus Morrison—when it was established in 1872. He was one of the incorporators, in 1856, of the Minneapolis Mill Company which was formed to develop the waterpower of the falls; and he was the first mayor of Minneapolis. He was one of the builders and a director of the Northern Pacific Railroad; and after the panic of 1873, with which the Northern Pacific was deeply involved by the failure of Jay Cooke, Morrison constructed another section of the railroad and took his pay in timber land as there were no funds.

Morrison was succeeded as president of the Northwestern National Bank by H. T. Welles, who had been the first mayor of St. Anthony, and who was the promoter of the first railroad built to St. Paul in 1862.

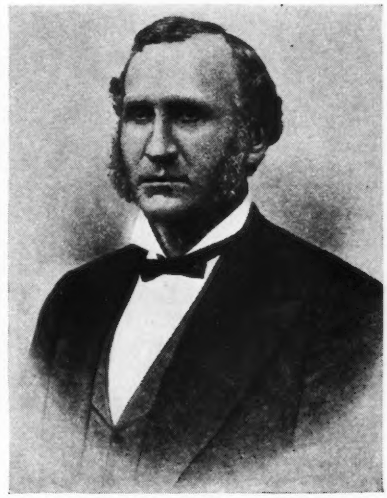
In the meantime Minneapolis and St. Anthony, though rival villages, were alike concerned with securing transportation and with developing the use of the falls.

The Minneapolis and St. Louis Railroad was constructed to St. Paul by local capital because of the refusal of the president of another railroad to make the connection, and it was financed largely by private bankers and the state bank. Railroad connection was made with Faribault in 1865, and with LaCrosse in 1867. With the help of $100,000 in city bonds, financed by the banks, the Lake Superior and Mississippi Railroad was extended to Duluth in 1871.

THE MUNICIPALITIES MERGE

AT the falls, power canals were constructed early to provide sites for mills, but in 1867 the construction of a tunnel threatened inadvertently to break away the ledge of the falls. This alarmed the villagers because the mills were cutting about 77,000,000 feet of lumber a year —worth about $1,850,000—and were grinding 172,000 barrels of flour worth $1,660,000; and it was felt that the loss of the falls would mean the ruin of both towns. The little municipalities, the banks and the citizens raised $335,000 which—along with $500,000 from Congress—permitted the construction of a concrete dike under the river bed. This

An old sawmill scene from earlier days BROWN BROS



Jacob K. Sidle in 1864 reorganized the old Bank of Minneapolis under the National Bank Act as the First National Bank of that city. This is the oldest banking institution in Minneapolis

necessity for common action did much to unite the two towns of St. Anthony and Minneapolis, which was accomplished in 1872.

In the next few years the process of flour milling was revolutionized and the whole milling industry was reorganized.

First, a new process of saving the gluten from the middlings by means of the middlings purifier was introduced in the Washburn mills, but this bettered the flour rather than altered the industry. The real revolution in the industry came with the introduction of roller milling. For thousands of years grain had been ground between flat stones, only one pair of which might constitute a mill. But in 1875 Charles A. Pillsbury and George A. Christian took up the idea of roller milling which was being tried in Hungary, and after improvements adopted it in the Pillsbury Mills and in the Washburn Mills managed by Christian. This substituted a series of chilled iron rollers for grindstones, and metamorphosed the industry from the little mill by the stream to an immense manufacturing plant.

The effect was to concentrate flour milling in great centers, and to a large extent at Minneapolis. This required rebuilding and refinancing the mills and the whole industry. The revolution in flour making may be judged from its expansion in Minneapolis. The production there was multiplied ten times between 1870 and 1880, jumping from 200,000 to 2,000,000 barrels. This required one new mill after another and heavy financing. The terrific explosion of the Wash- (CONTINUED ON PAGE 58)

"If American bankers are now willing to do their part in encouraging this movement, we may confidently anticipate real progress", believes Mr. Ransom, who is vice president of the Fulton National Bank of Atlanta

Sound Credit Expansion through Trade Acceptances

One Way for Banks to Help Develop Local Business

By RONALD RANSOM

THERE seems to be an idea that banks have not responded as they should to the effort to increase the use of acceptances. If there is any justification for this thought the answer is to be found in the fact that bank customers, in small cities and towns, have not themselves cared to change their merchandising operations and have preferred to go along the credit roads which they have heretofore traveled, and to sell on open account and base their bank credit on the strength of their own position.

Many plans have been advanced in recent months to expand credit. One of the best remedies and one of the most workable also happens to be one of the oldest. There is no need to invent some novel and experimental solution. Turn back the pages of history. In ancient Venice and Lombardy and Holland and in the Hanseatic towns of the 12th Century we find the acceptance recognized as an important instrument of trade—an established method of utilizing and extending credit resources.

The present period of depression has served to turn business and financial thought once again towards the use of acceptances. If American bankers are now willing to do their part in encouraging this movement, we may confidently anticipate rapid progress. Trade acceptances were gradually supplanting earlier methods in use in this country in financing business when the demoralization in all lines of business which followed the Civil War sidetracked the promise of important developments then in prospect. The splendid educational work which bankers' associations, credit organizations and the American Acceptance Council have carried on for years and which had been showing substantial results before the depression will be expedited by the present demand for credit expansion and by the fact that trade acceptances fit in with the necessities of the moment.

E. W. SHEPARD

A special trade acceptance committee of the American Acceptance Council has been formed to coordinate the activities of the committees in the twelve Federal Reserve districts. Mr. Shepard is chairman of this special committee. He is treasurer of the Graybar Electric Company, New York

The nations of Europe have for generations fully realized the advantages to buyer and seller, as well as to bankers, in the use of these instruments. In one year previous to the World War the Bank of France discounted $3,000,000,000 in acceptances with an average of $100 each and with some actually as low as $1. The possibility of their use in such small denominations has not yet occurred to American banking, nor have we realized, as has Europe, the vast possibilities which are inherent in this class of paper. It is perhaps fortunate that a present day necessity is serving to bring home to us what they offer as an answer to some current banking and commercial problems.

The advantages from the point of view of seller and buyer have been thoroughly presented through many authoritative sources for years and during the last few months additional weight has been furnished in support of these arguments by the demand that banks should expand credit.

Approaching the subject from the bank's point of view we will find that many important business interests feel that banks outside of the larger cities have as yet an inadequate appreciation of the fact that trade acceptances offer one of the safest temporary investments which can be found for bank funds, and can be made to assist in the development of local business. A two-name negotiable instrument evidencing a closed transaction with its maturity definitely agreed upon, and with a trade practice justifying belief that the obligation will be met upon its maturity, and with the promise of a rapidly developing marketability, and being rediscountable at Federal Reserve Banks by member banks, is such a desirable bank investment we may be sure our banks will meet the demands of business and do their part in carrying forward the present movement.

Banks and customers alike outside of the larger cities have not understood that the use of acceptances could be developed to advantage in many localities where they have not been in use and where (CONTINUED ON PAGE 62)

Management and Economics Are the New Farm Tools

How Better Money Income Is Resulting from Records and Labor Efficiency

By
DAN H. OTIS
Director, Agricultural Commission American Bankers Association

The Banker's Part in Taking the Lead for Constructive Work in Farm Development

IN periods of economic slack human nature appears as the limiting factor. Management may fail, distribution may fail, buying power may fail and people may fail, but land and other national resources do not fail. Economic law is human made and is therefore susceptible to change, readjustment and improvement. What human ingenuity has developed, human ingenuity can modify and improve.

Agriculture represents the largest economic activity, normally utilizing 21.5 per cent of our people gainfully employed. Conditions affecting this large group react for better or for worse on those engaged in other pursuits. Carried to the extreme, no nation has yet survived a decadent agriculture.

Beginning about the time of the World War, significant shifts have taken place. Greater mechanization of agriculture, though still in its infancy, has stimulated commercial agriculture as compared with self-sustained farms. The period is marked by intense competitive struggle, internally and internationally. This demands larger money income, and more intelligent use of credit facilities. Decrease in the use of horses and mules (9,000,000) has resulted in throwing about 25,000,000 acres, formally needed for producing feed, to the production of other crops amounting to an increase of about 13 per cent. This shifting process continuously calls for better economic understanding and the practice of better business management.

Success factors in farming parallel those in banking. Much depends on the management. The National Farmers Company of Omaha, headed by a former banker, tells of a Nebraska tenant in Nuckolls County who bought old machinery and impoverished stock of an incapable tenant. With identical equipment, nearly identical weather and on the identical land, this new tenant produced 2,136 bushels of corn in 1931, as compared with 384 bushels by the previous tenant the preceding year. In 1930 at 45 cents, the crop amounted to $172.80. In 1931 at only 35 cents, the crop brought in $747.60, an increase of $574.80 due to management.

In a circular entitled "Farm Practices That Pay", based upon studies made from farm accounts kept by groups of farmers organized and under the leadership of the Illinois College of Agriculture, figures are presented, showing a gain of $1,265 per year per farm on 25 central Illinois farms, covering a period of six years. This is due to better practices and improvements adopted because of their farm management studies made through the medium of records kept on these farms. In commenting on the studies, the following significant statement appears, "One is impressed with the fact that success in farming is achieved not by doing unusual things, but by doing the usual things unusually well".

A few of the many farm management problems are submitted to indicate some of the conditions, possibilities and difficulties confronting the farmer as he struggles along with other business men to readjust to changing conditions and gradually to emerge into more satisfactory living conditions.

A thief that works when it rains is making terrible inroads on farm capital. It is estimated that 75 per cent of all land in this country under cultivation, approximating 250,000,000 acres, is in some degree affected by soil erosion. It is stated further that erosion removes over 21 times as much plant food from our cultivated fields and pastures as through the crops harvested. No industry can long withstand losses of this kind. Terracing, strip cropping, strip sub-soiling and the hollowing out of small, shallow, water-holding depressions over plowed ground are some of the methods being used to help check the most vicious destroyer of soil fertility. This problem is of vital interest to all members of a community, as well as to the farmer.

"Did you ever look a man in the eye who was talking about something you knew all about, when he thought he did and you knew he didn't? That is the

Summary of 110 Kansas Farms—1931

	Your Farm*	Upper One-third	Middle One-third	Lower One-third
Number of farms		37	36	37
Crop acres per farm		157.5 A	163 A	214 A
Gross income		$2,595.42	$1,983.80	$2,711.72
Operating expense		1,792.54	2,120.55	5,136.27
Net farm income		$802.88	—$136.75	—$2,424.55

*When a summary is given to participating farmers the various items that go to make up income and expense are listed, making detailed comparison possible.

feeling and pleasure that comes to one who is keeping books, and knows what he is doing." This statement comes from a Wisconsin banker who has been prominent in banker-farmer activities and who thoroughly believes in farm accounts. A good business knowledge is a great asset to any farmer. This is demonstrated by some recent experiences:

Kansas Farm Bureau-Farm Management Association. Bankers in 15 counties joined with farmers and the Extension Service in helping to organize two associations composed of 280 farmers, banded together to keep farm accounts and to study the business management of farms. Each association employed a man to give his full time to the leadership of this work, visiting farms and assisting in taking inventories and keeping records, and helping in checking results. The farmers contributed from $16 to $50 per farm, according to size, to support the project. A brief summary of 110 farm records for 1931, taken from one of these associations and grouped into thirds based on net farm income, typify some of the interesting and valuable results accruing from this work. The summary is shown on the table printed on this page.

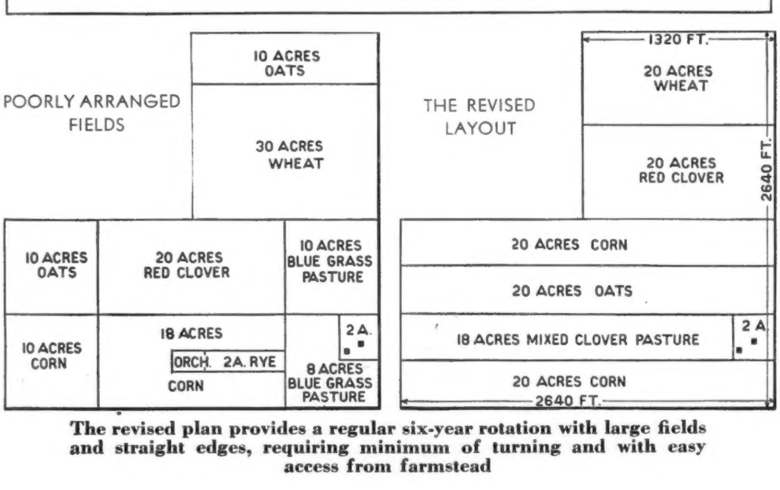
The upper one-third shows $611 more gross income and $328 less operating expense than the middle group, although nearly half of the middle one-third shows a net farm income. The lower one-third, while having the larger gross income, are loaded with heavy operating expenses. In times of good prices the larger farms are usually more profitable, the larger volume of business reducing the proportion of overhead. During conditions like the present, the opposite appears to be true, due in the main to the difficulty of reducing overhead expenses.

These records were used before the Interstate Commerce Commission in efforts to arrive at an equitable freight rate. The condition of agriculture can be clearly and accurately pictured only when dependable records are available.

Utah Farm Business Analysis. Utah bankers made farm accounts the major banker-farmer project for 1931, co-operating with the Utah Agricultural College and the United States Department of Agriculture. This effort resulted in 127 complete accounts. Although a difficult year several receipts averaged $1,985; total expenses, $1,756; and net receipts, $629. To this there is an average credit of $237 for products used in the farm household, and an average of $149 for income other than the farm, making a total income of $1,015—not bad for these times. No allowance is made for interest on equity; this might off-set house rent, fuel, etc.

In analysing these records it was found that the more successful farmers studied to correlate various farm activities and by the use of livestock make an efficient distribution of labor throughout the year. This Utah project has demonstrated that even in years of drought and low prices there are many farms, by virtue of a high degree of efficiency by operator and family, that still show a profit. The wide variations between individual farms and between counties show opportunities for still greater accomplishments.

A STUDY IN FARM MANAGEMENT



The revised plan provides a regular six-year rotation with large fields and straight edges, requiring minimum of turning and with easy access from farmstead

LARGE vs. SMALL FARMS

WASHINGTON. The records here point the way to profitable readjustments under varying price conditions. With two counties completing five years and another three years, they give an opportunity to study variations due to changing conditions. They give to county agents and extension officials, and to bankers, a perspective difficult to get in any other way. Two of these five years showed that the larger farms with larger turn-over had the larger income. In 1931 things went into reverse. The small family-sized farm, because of ability more quickly to adjust costs—especially labor—to lower prices, had the larger income. In such times leaks are more glaring and are not covered up by increasing inventory values as in periods of rising prices. Records in periods of low prices reveal the merits of a happy combination of an efficient manager and high producing land.

Washington records show a strenuous effort to reduce expenses on all farms. In Whatcom County the farm records showed an average cash expense of (CONTINUED ON PAGE 44)

The Check Tax

What Do Bankers Think of It?
What Is the Customers' Attitude?
What Are Its First Effects?
What Does It Cost to Administer?

This article is composed entirely of direct quotations from bankers obtained by the JOURNAL through letters and personal interviews. It gives a picture of banking opinion on the new tax in operation

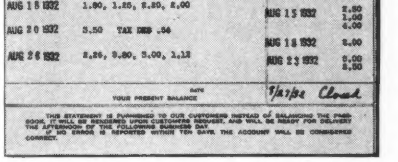
I. Opinion

THE burden of the new tax is the result not so much of the tax itself as of the loose way in which the provisions have been drawn. If we had a clear-cut law, followed by definite and positive instructions from the Treasury Department covering all kinds of bank transactions, the nuisance feature so far as the banks are concerned would be largely eliminated. In my judgment the tax is a reasonable one, and potentially productive of a considerable amount of revenue. . . Bank customers regard it as a nuisance tax and we are satisfied that it will not produce revenue at all commensurate with the harm it may do in aggravating hoarding. We know that it was wholly unreasonable to impose the burden of its collection on banks. . . I am not at all sure the tax on checks is unjust, but I do think it is a tremendous burden on the banks to be required to keep the Government's record instead of using the old reliable method of revenue stamp. . . The law, as well as the regulations, are very vague and questions arise daily which are difficult to answer. . . We favor any act by Congress that would eliminate this extra burden. . .

We feel, as most banks do, that this was an outrageous thing to demand of the banks without compensation. Quite naturally we have heard many complaints from our customers as a result of this tax. They feel it is unjust to them and to the banks also, particularly at this time and under such conditions as now exist. . . We think the manner of collection is an outrage. We are not opposed to the tax and if it were a stamp tax, would have absolutely no objection, but do feel that the expense and work added onto banks, in the handling of it in the present form, is a terrible imposition. . . Our officers are unanimously opposed to the tax in its present form. They state that computation of the tax entails great labor expense. The tax is a nuisance to the bank and to the owner of the checking account. The principal grievance from the standpoint of the bank officer seems to be the complete lack of interpretation of the law by the Treasury Department. . .

II. Effects

IT is too soon to develop any statistical record showing what effect the tax has had upon the number of checks used. This is also true of the volume of currency outstanding. . . We have received innumerable complaints about the tax and our list of closed accounts has increased at least 100 per cent in reaction against the tax. Of course, the great majority of these closed accounts are small balances; nevertheless, they do take customers out of the bank and circulation is noticeably increased. . . As yet it is a bit too soon to obtain a definite idea as to just what the effect would be. . . It has resulted in the closing of several small accounts, consolidation of others and the transfer of some small commercial accounts to the savings department. . . Our figures indicate a net decrease of approximately 20 per cent in the number of checks drawn against individual accounts. We do not have any figures in regard to the increase in currency paid out over the window; however, our tellers have noticed an increase. . .



A considerable number of small accounts have closed out as a result of the check tax. I would like to point out that this loss in small accounts has resulted in a loss of revenue to the bank as most of these accounts were subject to a service charge. . . A considerable number of small checking accounts and a few that are worthwhile have been closed because of the check tax. Many other customers who carry a considerable account are not checking on it as freely as they formerly did. They occasionally come to the bank and withdraw a considerable sum with which to pay their current bills. . . We have had quite a few small accounts to close out due to check tax. The new tax has brought about a greater volume of currency to be handled by the tellers, both on deposits and withdrawals. . . Up to the present we see very little effect in that there are practically as many checks being drawn as formerly. . . We find that we have, since the inauguration of the check tax, lost quite a number of the so-called small, convenience checking accounts. In connection with the smaller checking accounts, a great majority of these customers find that if they issue 25 checks on the average per month, it is costing them 6 cents per check, 2 cents per check for the tax and 4 cents per check for the $1.00 service charge per month. . . Of course, we have had the usual number of complaints regarding the cost of this tax and have had a few cases of accounts being closed for this reason. . . By actual count, on a weekly average basis, we find that the number of checks drawn on us has decreased approximately 20 per cent since this law came into operation and while quite a number of small accounts have been closed, they have been less than we had anticipated. . .

First 18 days of July, 1931, we paid 67,950 checks, and this year, 56,734 on approximately the same total deposits —about 20 per cent fewer. Small accounts closed are negligible, perhaps 50

on account of the tax. We do not find any noticeable trend towards carrying currency to avoid paying by check nor do we believe the smaller volume of checks paid is due so much to the check tax as to unsettled conditions here due to uncertainty about the effect of the Government's economy program. . . Reduction in the number of checks charged daily is approximately 20 per cent. There is no material increase in the closing of accounts. . . Since the date the tax was made effective a great many small nuisance accounts have been closed—apparently because the customers were unwilling to pay 2 cents a check. We have found it wise to increase the amount of currency we hold in the vault, to offset the numerous small increases in requests for currency to pay bills in cash instead of by check. . . In our estimation the tax has reduced checking activity approximately 20 per cent, but this reduction in checking activity has made no corresponding reduction in our clerical forces, as the time required to maintain proper records of the tax due against accounts has more than offset the reduction in activity. As mentioned before, many small accounts have been closed out entirely while others have been transferred to savings. . . Check transactions appear to have been reduced about 10 per cent. . .

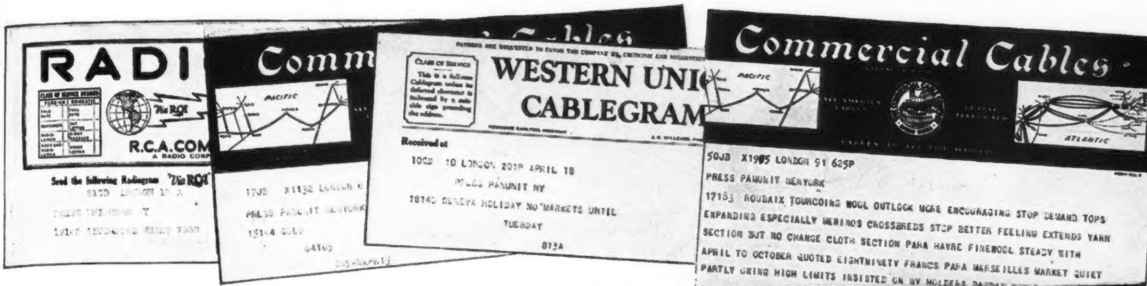
It has required a lot of explaining on the part of our bank officials to some of our best customers that the tax is an arbitrary Government tax and has nothing to do with the bank whatsoever, except that we are compelled to charge the customer's account and remit to the Government. In several instances the customers could not be convinced and have temporarily withdrawn their accounts. . . I do not notice any particular effect on the volume of currency outstanding. . . The situation is rather well expressed by one depositor who stated that he did not mind paying our service charge, but with the 2 cents' tax per check on top of that, he closed his account. We expect, of course, that check drawing will diminish for a time—most depositors object to the tax, even though they may not express themselves—but in a few months they will forget about it. . . The loss to individual banks in total deposits will not be great, but it appears the national gain in hoarded money might be enormous. . . Check consumption has shown a decrease of approximately 5 per cent and the amount of currency in use has shown an increase of from 15 to 20 per cent. . . We had expected a much larger number of closures and were agreeably surprised when they failed to materialize. . .

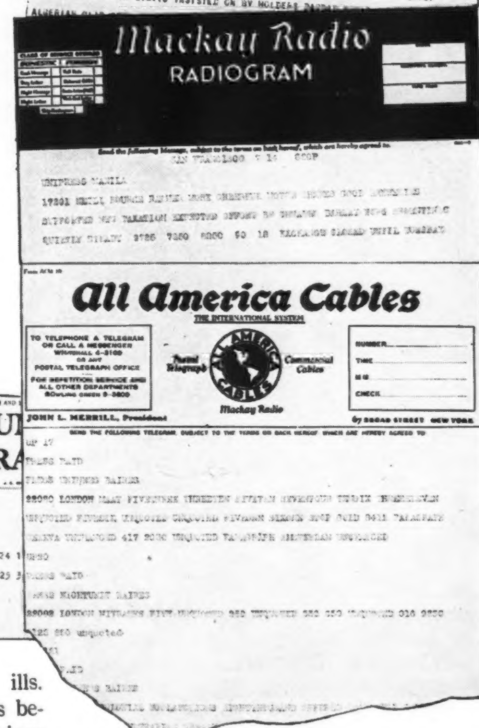
III. Costs

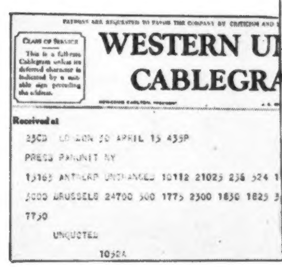
OF COURSE, our greatest complaint is the additional work placed on our organization and the extra expense to which we are put in collecting this tax. Quite a number of checks have been presented to us for the exact amount of their balance to close out the account, and we have returned them because there were not sufficient funds in the account to pay the check tax. . . The greatest nuisance from the tax falls upon the bookkeeping department. Our officials in that department tell me their estimate for our main office alone is 70 hours of additional labor per month. . . The bank is appointed an agent of the Government, at the expense of the bank, to collect this tax. In a bank our size [deposits, $3,000,000], I would say the additional clerk hire and stationery will cost us $200 or $300 a month, and in larger banks the expense will amount to possibly as high as $1,000 per month. We happen to be a United States depository and make remittances daily to the Treasurer of the United States, covering amount in excess of balance which we are allowed. In making this remittance to the Government, of their own money, we are compelled to pay a tax of 2 cents, which seems to us to be an additional outrage. . .

We estimate at least 12 people in our main office spend one-half hour daily in connection with the extra work caused by the recent tax law. The expense involved in the alteration of our bookkeeping machines, in order to accumulate the tax charged to depositors' accounts, was an expense to the bank, which expense will be repeated when the machines are restored after the expiration of the tax law. New systems of accounting were necessary in order to accumulate the tax and considerable time was spent by banks in this connection. . . We estimate that it will cost us for time, labor and forms necessary, at least 25 per cent of the amount of the tax we will collect, to serve as a collection agency for the Government. . . Administration of the tax is no great trouble. . . This bank is very bitter against the tax, because of the additional labor which has been imposed upon it. If there is anything we can do to have this tax corrected, kindly call upon us. . . It is making us considerably more detail work and we probably will have some difficulty with the tax returns. . . It has resulted in causing unemployment to the extent that we have reduced our bookkeeping force. Although we have been able to cut down on our force, we have not been able to cut down our expenses in proportion to our loss in revenue from service charges, this being due to the fact that service charges are based on a given volume of business and an increase in volume does not increase expenses proportionately. Under our method of collecting the tax, the burden falls at the end of the month at which time about an extra hour's time for each clerk in the bank is required to figure the amount of tax. It has, no doubt, thrown a considerable number of employees out of work and at the same time has decreased the revenue of the banks at a time when the revenue of the banks on the whole has already been seriously impaired. . .

We have not yet had sufficient time to experience in full the difficulties which it imposes. We have been following the practice of charging the amount of the tax for the previous month against accounts of depositors, between the first and tenth, unsupported by debit tickets. The only complaints thus far have come from a few customers who have advised us they would prefer to have their tax billed to them separately, instead of having it charged monthly against their accounts. In such cases we have complied with these requests, which involves additional clerical work and postage expense. . . Accounts are being closed without allowing for tax charge. This causes great inconvenience to the banking institution. Decision has to be made whether to return the check because of the failure to provide for the tax or to charge up the check and endeavor to procure the tax from the patron. The burden of additional work placed upon our bookkeeping department is considerable. It means two entire additional daily operations. The reduction in the number of checks does not offset this additional work. Our (CONTINUED ON PAGE 46)







From everywhere to everywhere—commodity prices are items of first importance daily, every hour, to the whole world. The great news agencies—Associated Press, United Press, International News —and special services sponsored by individual newspapers, supply the demand for quotations

Commodities Are in the News

By W. S. COUSINS

FROM now until the end of the year, the trend in commodity prices will constitute the biggest single factor in determining whether or not the country is emerging from the business depression.

As long as financial history has been written, a decline of more or less abrupt proportions in commodity prices has accompanied every major business depression. Prices have swung lower as unemployment and shrinking business profits cut into the purchasing power of all groups in the population. The surplus of unsold raw and manufactured goods has reached higher and higher proportions.

Then would come the day when prices refused to give ground. The pace-setters in the commodity list would hold steady for a certain period, then would gradually but perceptibly move up the price scale regaining the bulk of their former losses or establishing an entirely new level based on the new conditions in production and consumption created by the depression. Among economists and business leaders it has been established gradually that a recovery in prices of goods in the home markets constitutes the most reliable forecast of a change for the better in industry and business —in other words, the passing of the depression and attendant ills.

It was fully three months before the crash in the American stock market in October, 1929, that the prices of farm products, foodstuffs, metals and other leading commodities inaugurated the long decline which has carried them to the lowest computed levels in the present generation, and in many cases to unprecedented levels. Senator Borah is authority for the statement that wheat, in one of its recent characteristic plunges, reached the lowest level in 400 years.

Right here it should be recalled that commodities did not duplicate the wild upward movements of speculative stocks in the period under review. The peaks of the whole post-war period were recorded in the early part of 1920, from which there was a sensational drop in the following year and a gradual recovery of less than half the ground lost in the next nine years. Except for a brief period in the middle 90's, the general level of commodity prices at the bottom of the June recession was the lowest in a century.

These recessions in commodity prices have naturally left their imprint upon the so-called indices which are compiled and computed by a number of the well known agencies. Thus the U. S. Bureau of Labor Statistics wholesale commodity index in May, 1920, stood at 167.2 (1926 equals 100) compared with 117 in 1928 and 99 in 1929. It has since receded to 65.

Bradstreet's commodity price index reached its post-war peak of 20.87 in January, 1920, and in May, 1929 stood at 12.46, since which time it has fallen to 6.68, a drop of nearly 70 per cent in three years. The National Industrial Conference Board's Cost of Living Index (1923 equals 100) registered 123.6 in July, 1920, fell violently in 1921, rallied to 100 in the period ended July, 1929, and was quoted near the middle of August around 78.

During the three-year period ended July, 1932, (CONTINUED ON PAGE 48)

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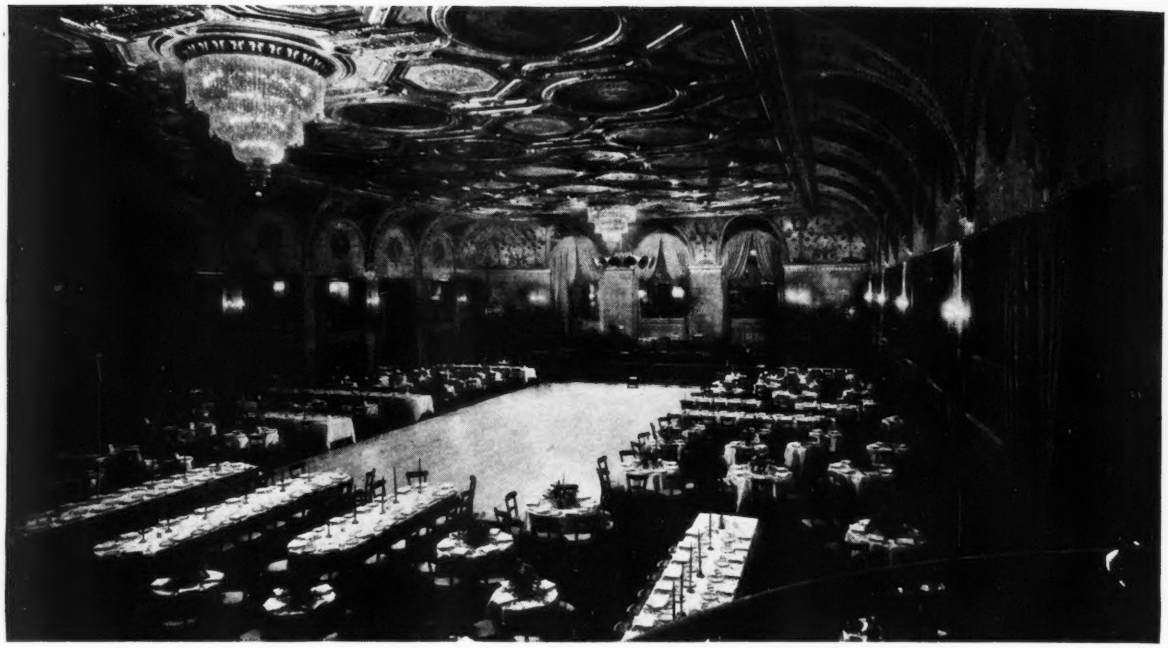
In the August issue Mr. Cousins contributed an article on trade acceptances. This month he writes about commodity prices, the central factor usually looked upon as affecting recovery



KEYSTONE

Sala de Oro, of the Los Angeles Biltmore, one of the world's largest hotel assembly rooms. Most of the principal meetings of the Los Angeles Convention will be held here

Events and Information

WITHIN THE ASSOCIATION

58th Annual Convention

Los Angeles—October 3 to 7

SELDOM in the 58 years since the formation of the American Bankers Association have there existed more compelling reasons for a great nation-wide gathering of bankers for purposes of discussion and the formulation of sound measures—never has there been a timelier opportunity for taking stock and mapping procedure than that which will be afforded by the Annual Convention in Los Angeles, October 3–7.

Speakers at the general sessions will discuss taxation and other matters of broad, national interest. The Division meetings will treat more specifically the problems of national banks, trust companies, savings banks and state banks. At the time this is written the speakers' list has not been completed.

The last session of Congress accomplished the passage of more far-reaching legislation of an economic and banking character than any similar session since the creation of the Federal Reserve System. Much of this legislation is good and much is paternalistic; much of it may lead to serious encroachments upon what has always hitherto been considered the domain of private enterprise. There is no bank so small, no bank so big, as to be outside the scope of this legislation's influence. Its possible ramifications are vast and the outlook requires the interchange of thinking by many minds, peculiarly the province of the Annual Convention of the American Bankers Association.

What banker is there who will not benefit from this chance to discuss with other bankers from every section of the country the significance of the many untried features of the Reconstruction Finance Corporation with its extensions of credit to states, counties and municipalities; in behalf of foreign trade, especially in agricultural products; and in the authority extended to the Federal Reserve System to deal directly with the public?

Then there are the uncertain effects of the Home Loan System; the results which are to follow the emission of new national bank notes based on certain Government bonds; the internal and cost problems which follow in the train of the new taxation bill, especially in respect to the check tax; the surcharges on currency and security shipments, and the administration of trusts.

A determined effort toward "reflation" is under way. Will this get out of hand and develop into inflation, or just what will develop and what will be its effects upon bank investment accounts? Just what can banks most wisely and profitably do to hasten the return of better times and what part can inter-bank co-operation take in these measures?

On all sides, bankers find themselves faced with serious problems—many of them without guiding precedents and requiring new trails. In the clear air of Los Angeles, away from the daily routine and in contact with able minds from every section of the country, a freshened viewpoint is bound to result; a new courage toward the future and new weapons with which to achieve more equitable banking revenues and broader public service.

Los Angeles bankers assure you a cordial welcome and a full display of that cordiality and hospitality for which the city is noted. You are going to find a far bigger city than you saw in 1926, the date of the last convention in the city of The Angels. New hotels, new theatres and new show-places abound on all sides, yet costs will be the lowest in a generation. At the Los Angeles Biltmore, which will be the Convention Headquarters, single rooms with private baths may be had for as little as $4 a day, while rooms with twin beds and bath are available for $6. Its Sala de Oro, where the principal meetings will be held, is said to be the largest hotel assembly room in the world, and assures comfortable seating space for all delegates.

While the complete entertainment program has not yet been announced, there are ample attractions to satisfy the most exacting visitor—golf, Hollywood, swimming in the Pacific, boating, deep-sea fishing, a trip to Catalina, etc. —while magnificent highways lead to reminders of Spanish days which antedate the signing of the Declaration of Independence, and breathe the mission and hacienda flavor of by-gone days.

Among the men who will receive the delegates in Los Angeles are these leading bankers of Southern California and members of the reception committee:

Hotel Reservations

There is no dearth of good hotel accommodations in Los Angeles. Hotel facilities are adequate and give assurance of comfort. Reservations are being made through Don S. Williams, Vice President, California Bank, Chairman of the Hotel Committee

Chairman: Andrew M. Chaffey, president of the Los Angeles Clearing House Association, and chairman of the board, California Bank, Los Angeles. In 1905 he founded the first branch bank in California, the forerunner of the now extensive branch banking systems in that state. He was active in the development of irrigation systems in the Imperial Valley, the greatest reclamation project in the United States.

Vice-Chairman: Henry M. Robinson, chairman of the board, Security-First National Bank of Los Angeles, the largest bank of southern California, ranking tenth in the United States on a basis of total resources. He is an officer and director of numerous outstanding industrial concerns in the Southwest, and a trustee of the Henry E. Huntington Library and Art Gallery. He was chairman of the American delegation to the International Economic Conference in 1927 and was one of three U. S. members of the committees which evolved the Dawes Plan. He is a member of the President's Unemployment Committee, active in planning relief.

Victor H. Rossetti, president and director of the Farmers and Merchants National Bank of Los Angeles. Active in civic affairs, charitable organizations and on banking committees. He is a member of the advisory committee of the Los Angeles Clearing House Association for the American Institute of Banking.

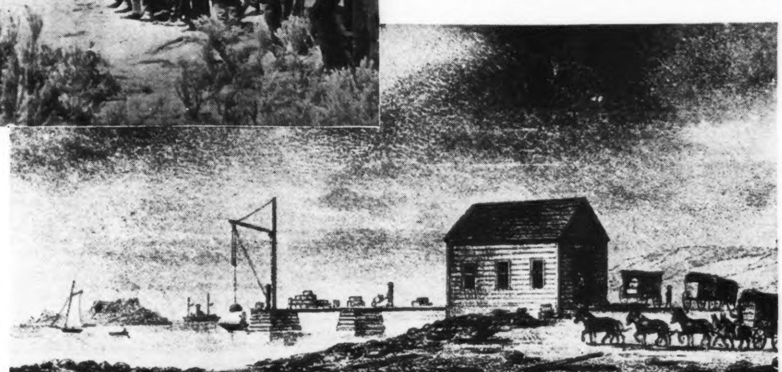
Willis D. Longyear, vice-president and director, Security-First National Bank of Los Angeles and chairman of the trust committee. One of the four surviving members of the "Old Guard" of that institution. He is a member of the Economic Policy Commission of the American Bankers Association, a former president of the California Bankers Association, former Treasurer of the American Bankers Association, and for many years was a member of its Executive Council.

Herbert D. Ivey, president and director, Citizens National Trust and Savings Bank, Los Angeles, and vice-president of the Los Angeles Clearing House Association. He is treasurer of the All-Year Club of Southern California.

Ralph B. Hardacre, vice-president and director of the Security-First National Bank of Los Angeles. He was president of the California Bankers Association in 1927-28, and is a former member of the Executive Council of the American Bankers Association.

George W. Walker, director and chairman of the executive committee, Citizens National Trust and Savings Bank, Los Angeles; director, Petroleum Corporation of America and numerous other cor- (CONTINUED ON PAGE 59)

SOUTHERN PACIFIC



Pioneer days of the Pacific West. Above: when the "Iron Horse" of the West met the "Iron Horse" of the East at Promontory, Utah, in 1869, after the last spike had been driven connecting the Central Pacific (now the Southern Pacific) and the Union Pacific in the first transcontinental railroad route. Right: the old Timms and Company landing at San Pedro, the forerunner of the present Los Angeles harbor

Ideas and Opinions

A Time-Saving Digest of Current Business Thought

This is a clearinghouse of items aimed to keep us informed without taking too much of our time

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ANTI-BANK PLOT

"ANONYMOUS telephone calls were used in attempts to cause panic among the depositors of even the strongest banks. Reports were received in Chicago from many cities where the same system was used. I believe that the plot against banks was nation-wide."

—Melvin A. Traylor.

•

GOLD

"IF all the world returns to a gold basis, it is probable that we will have to raise the price of gold to correspond with the excessive demand for it or continue to have business distress for many years. To attempt to adjust the entire business and credit structure to the present value of gold is a more serious business than this country has ever undertaken."

—Prof. G. F. Warren,
Cornell University.

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UNIFORM LAWS IN THE STATES

"THE American Bankers Association has for many years been working in cooperation with state organizations to promote uniform state laws.

"The need for such uniform laws throughout the United States is self-evident. While our country is commercially one, the interstate transactions of banks involve dealings in negotiable paper and documentary evidences of title to property which are governed by the laws of one or more of the 48 separate states.

"Much progress has already been made but there is still much to be done. Take the Negotiable Instruments Law now in force in all your states. How many of you can remember that prior to 1897 there was no uniform code of rules governing bills, notes and checks, and bankers in one state could not be expected to know the laws in 47 other states.

"Take commercial documents which, unlike negotiable instruments, do not call for payment in money but represent titles to commodities in transit or in storage and upon the security of which the banks of the country make advances. Only one half of the states have passed the Uniform Bills of Lading Act, while all but four states have enacted the Uniform Warehouse Receipts Act, both of which protect the banks under your supervision."

—Harry J. Haas.

•

THE NEW HAMPSHIRE PLAN

OUT of New England comes a plan which, according to Governor Winant of New Hampshire, its spokesman, holds hope for employment to 3,000,000 now out of work throughout the nation. The basis of the plan is a limitation of the working hours of the individual to provide work for 10 per cent more people, and to provide payment for these new workers by contributions from present employees, executives and stockholders. By thus obviating the necessity of providing additional space and equipment, this plan meets some of the serious objections which have been made to previous shorter-day proposals, and carries the endorsements of prominent industrial, political and labor leaders.

•

INTERNATIONAL CO-OPERATION

"IF only there might come from Washington an inspired and courageous voice of leadership which would stir the American heart and prove that the American people, too, can rise to a great height and can join the European nations in measures to relieve themselves of further loss, want and unemployment!"

—Dr. Nicholas Murray Butler.

•

ARMAMENTS

"ARMAMENT itself is not the basis of Europe's trouble. It is only the exterior evidence of interior maladies, which are causing great suffering to the affected states."

—Lt. Col. C. G. Mettler,
U. S. Army.

•

EMPLOYMENT

"PROVISION for adjustment of production and consumption for equitable distribution of the wealth created by industry for adjustment of work-hours—these are fundamentals to sustained progress. The Government can provide the mechanisms through which citizens can cooperate to accomplish these adjustments."

—American Federation of
Labor Survey.

•

WORLD TRADE

"WHAT has warped the mechanism is that governments have paralyzed the movements of goods which are indispensable for the good health of the monetary system that regulates the economic and financial relations of nations among themselves."

—Pierre-Etienne Flandin,
Former French Finance Minister.

•

WAR DEBTS

"WHEN I see a program which in my judgment will start wheat and cotton on the move, which will give employment to the unemployed and confidence and initiative to business, I shall be willing, so far as I am concerned, to use the debts in any way, reduction or cancellation, to make it a success. But there

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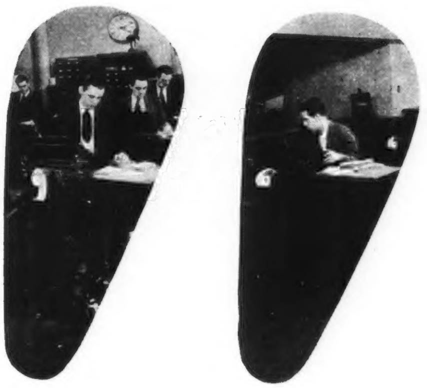
R.F.C. Plans—

"The Finance Corporation has done much to help business and will do more. But the Government cannot do it alone. Bankers and business men, big and little, must help. If every one gets his shoulder to the wheel, there will be improvement. America has had depressions before and has always come out of them. We will get out of this one. But we must help America instead of Europe and you can print that in capital letters if you like."

—Atlee Pomerene,
Chairman.

How Much do you pay for Ditto Marks?



PHOTOGRAPHIC bookkeeping methods eliminate expensive duplication of clerical work in banks . . .

WHY pay TWO clerks to *ditto* the same bookkeeping work?...

And maintain TWO bookkeeping machines to *ditto* the same calculations?...

And buy TWO sets of stationery to *ditto* the same figures?...

—When you need make only ONE set of records, photograph them with Recordak, and save 33⅓% in labor, 40% in machines, 50% in stationery, and a vast amount of filing space.

The Recordak Photographic Plan of Single Posting makes ledger records at the rate of 80 a minute. It gives you *greater* safety because it provides an irrefutable photographic record of every bookkeeping transaction—and a tamper-proof, abstraction-proof file.

Rent Recordak for only $25 a month. Operate it at moderate cost. Save on bookkeeping . . . on transit . . . on filing space. Hundreds of banks are doing it. Write for further details.

Recordak is used by hundreds of banks in the United States and Canada to make photographic records of checks paid, checks in transit, bookkeeping forms, file and other items at little expense, saving time and money, and protecting against loss and fraud.

Recordak Corporation

Subsidiary of Eastman Kodak Company

350 Madison Avenue, New York City

must be all reasonable assurance that it will be a success. No partial, incomplete program, leaving unsettled problems hanging over the world, would justify either reduction or cancellation."

—**Senator Borah.**

HUMANIZATION

"THE new era is bound to bring more consideration for others and less of those greedy, thoughtless tendencies which were responsible, in some part at least, for our present difficulties."

—**Myron C. Taylor.**

PROPHET-EERING

"THE real upturn for which we have been waiting and hoping may come within a short time or it may not put in an appearance for a year. From present indications, however, I would say that the chances of delay overbalance the chance of an early turn."

—**Stuart Chase.**

SMALL SHAREHOLDER PROTECTION

"AT present there is an utter inequality in status upon the great public exchanges as between the isolated shareholder and corporate managements. Why should directors, for example, possess information not equally accessible in toto to every other partner in the enterprise? The indispensability of such a reform to the preservation of our existing corporate system is to be self-evident."

—**Wm. Z. Ripley, in the *New York Times*.**

RAILROAD CONSOLIDATION

"IN discussing the four-party railroad consolidation plan recently announced by the I.C.C., Daniel Willard, president of the Baltimore and Ohio, is quoted as follows: "It will be possible to bring about, through co-operation, many economies in operation based in part on the elimination of certain competitive practices. Not only economies, but improved service to the public would be possible. I believe it measurably meets the spirit of the consolidation provisions of the Transportation Act."

JOB INSURANCE

"THE industrialist can well afford to give careful study to problems of job insurance. The employee who has faith in the security of his job is ready to buy. Buying means employment and one keylog will be removed from the jam."

—**Alfred P. Sloan, Jr.**

R.F.C. Loan Publicity—

"Reports will be filed monthly by the R.F.C. during the summer. The public will be advised as to what is being done with their money. This bill was drafted with that end in view. Newspaper reporters will be able to get the information by applying to the clerk of the House or the secretary of the Senate. If these officials refuse this information, they will be guilty of malfeasance."

—Representative Rainey, Democratic Floor Leader.

TRADE ASSOCIATIONS

"THE development of efficient trade associations and commercial organizations is essential to the further development of functional direction in the advancement of national economic policy."

—**Julius H. Barnes.**

FARM MORTGAGES

"THE ratio of debt to the value of farms has increased from 9.5 per cent in 1910 to about 21 per cent in 1928, yet the mortality on farm mortgages has been low compared with other types of mortgages. More lenders are being guided by the productive capacity of farms as the determining factor, as a loan of this type admits of repayment in small instalments. Such a plan enables the farmer to get out of debt without too severe a drain on his finances and at the same time removes from farm mortgages the permanency feature which has too often clung to them."

—**Chas. S. Jackson, President Federal Land Bank, Baltimore.**

GOVERNMENT FACILITIES FOR AGRICULTURAL CREDIT

"THROUGH four large agencies, financed in whole or in part by the Federal Government, more than $1,200,000,000 has been made available to agriculture in the past 2½ years. These advances have been made by Federal Intermediate Credit Banks, Federal Land Banks, the Reconstruction Finance Corporation and the Federal Farm Board, while the Secretary of Agriculture has a revolving fund of $10,000,000 for loans for stock subscriptions in new credit corporations, livestock loan companies and the like, when 25 per cent of the necessary capital is raised locally. By these measures, agriculture is being carried through the present difficult period and placed in position to face recovery with far simpler credit problems than ever before."

—**Paul Bestor, Commissioner Federal Farm Loan Board.**

November 8th—Defeat or Victory for Spendthrifts?

(CONTINUED FROM PAGE 27)

business and its tendency toward reduction in standards of living. Faced with taxes larger than a year's cash rent, the farmer became a recruit to the economy ranks, judging from the utterances of the American Farm Bureau Federation, the National Grange and the state and regional agricultural organizations. With higher taxes than ever to be financed out of half-time pay, the laboring man who was buying a small home began to become aroused.

From such beginnings it was inevitable that the present movement to "deflate government" should arise and should gain strength almost overnight. The number of newly-created taxpayers' associations all over the country, intent upon radical reduction of the cost of all government, was a natural sequel. So also were such organizations as the National Economy League, with its special mission of putting an end to at least $450,000,000 of the so-called "veterans' racket" in the Federal Government; the National Organization to Reduce Public Expenditures, formed in Chicago to carry on a nation-wide campaign for a $750,000,000 cut in Uncle Sam's spending money; The Public, Inc., formed in St. Louis; and the vigorous organizations put together in almost every state and city of the country.

These additions to the organizations in the field are simply democracy's way of doing a necessary thing with popular force. The program as a whole is healthy and will not fail to bring far-reaching adjustments in public expenditures.

Management and Economics—New Farm Tools

(CONTINUED FROM PAGE 34)

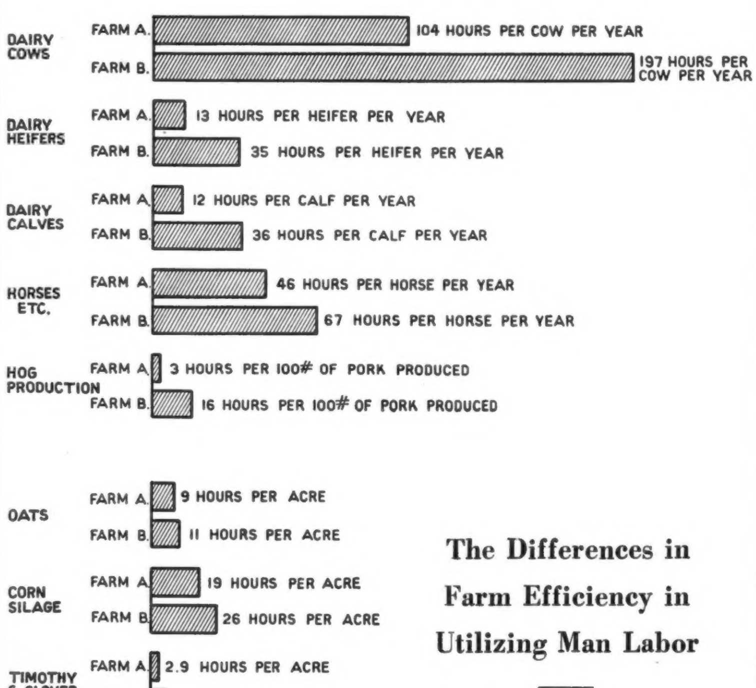
about $3,400. On the same farms in 1931 the cash expenses were reduced to about $1,900—accomplished largely through more economical feeding, lower prices for feeding, more home repairing, less hired help, and greater scrutiny of miscellaneous expenses.

Household Accounting Stimuli. Each farm home represents a potential market for $600 to $650 worth of food products. At least 75 per cent of this is capable of being produced on the farm. Household records show that more money is spent for food than any other item. They also show a large variation in the amount provided on different farms. One home demonstration club of 55 members in Tennessee spent an average of $4.86 for food in February of this year, and one farm woman reported $1.55 cash outlay for groceries during that month for a family of three. Another farm woman reported $3.50 expense for groceries for a family of six. These women claim that it is not difficult to sell sufficient fruit, butter, eggs—even at low prices—to furnish the family living.

Many farm women are doing much more than this. Under the leadership of home demonstration agents, the Extension Service of the United States Department of Agriculture reports over 874,000 farm women and girls in the United States who have developed new or enlarged old sources of income. This is helping to provide necessities and comfort, and to maintain standards of living. Many women have helped in paying interest, taxes and mortgage obligations. Their efforts not only provide for physical needs, but make for happier home living.

Utilizing Labor to Advantage. Labor is one of the big items of farm expense, frequently constituting from one-fourth to one-third of the total. A difference of 200 hours labor per year on a 160-acre farm has been reported due to improvements in the arrangement of fields. Large rectangular fields with straight edges, having one end as near the farmstead as possible, facilitate men, teams, and machinery starting and quitting with the least loss of time; and while working the long rows, requiring the least turning, they make for efficiency. In handling livestock it is especially important to shorten trips for chores, carting feed, hauling manure, etc.

Labor efficiency can also be greatly promoted by proper farm organization, including a proper balance between crops and livestock production, providing for labor utilization both summer and winter. Labor efficiency is also increased by well-planned rotations, with cash and feed crops so selected as to provide for seasonal distribution of labor. It is also further effected by reserving non-rushing jobs for rainy days or for slack periods.



The Differences in Farm Efficiency in Utilizing Man Labor

Two Farms Four Miles Apart

(Figures through courtesy, Wisconsin College of Agriculture)

An Opportunity for Rural Bankers. Better bank management deals with sound practices for conserving and safeguarding deposits, while making them earn a profit. Better business management, including farm management, deals with keeping up the flow of deposit money to the bank to be conserved. Both are extremely important functions in our economic life. Many farmers are good in handling some phase of farm work, but seldom excel in all. Farm accounts place the finger on the weaknesses and indicate where emphasis should be placed. They reveal to the banker where he can safely render service.

In urging good farm management, it is not usually possible or wise for the banker to attempt to be an authority on improved farm practices. He is, however, in a strategic position to take the lead in calling in the county agent or the extension specialist, and to ask for an analysis of a local agricultural situation with recommendations for constructive farm development. He can insist on financial statements from his farmer patrons. He can encourage five or six or more farmers to keep farm accounts. He can aid county agents and the county key banker in arranging for county tours to visit farms where the best farm management practices are demonstrated. He may be of special service in bringing the significance of farm accounts and better management practice to the attention of the landlord, retired farmers and merchants, who may have a controlling influence on how the tenants react to better farm management.

The Check Tax

(CONTINUED FROM PAGE 36)

bookkeepers are working very much later. The setting up of a control on our ledger, the tabulations of tax imposition from all sources and the remittances to the Government are costly, burdensome and unnecessary... Our method of charging the account at the time of posting every taxable debit keeps the true balance at all times, prevents avoidance of tax by closing of account and enables the depositor to keep his stub in agreement. . .

A number of firms, due to their internal audits, do not wish their account to be charged with the tax, but request the bank to bill them for it, so that they can draw their draft in payment of the charge. This often requires a second and third notice. The matter of administration expense in connection with this tax incurred by the banks is quite a factor. It necessitates printing forms of debit tickets, and requires additional labor to compute the tax and make the charge to the customers' accounts. The writer personally believes that the collection of the tax could have been greatly simplified if it had been a stamp tax... The new tax causes considerable more detail work. . .

The burden is practically entirely upon the company, and our method of handling it seems to be satisfactory up to the present time; that is, we count all the items at the end of the month and start our new month's statements with an item showing the amount of the tax, and the burden is done until the end of the next month. . . The [Treasury] Department has ruled that checks issued by a bank to the postmaster covering the transfer of public funds are not subject to the tax. This means that it will be necessary for the paying bank to inspect each check, paying specific attention to whether there is any special ruling exempting that check from the Government tax. . . We use, in both departments, the receipt system for customers withdrawing money at the bank, which, as you know, saves the 2 cents tax. This has increased the volume of work done by our tellers, but it has cut down the number of checks through the clearings. This institution would much prefer to see the individual depositor use the revenue stamp. . . I am one of the minority who believes that with clear-cut provisions it is much more convenient to have the banks charge the customers for the tax than to affix stamps to checks. . .

IV. Customer Angle

WE have had very little misunderstanding on the part of our customers concerning this tax. This is probably due to the fact that we made some effort to explain it by newspaper advertising and placards in our lobby. . . One customer of this bank brings in a check covering the 2-cent tax on the total number of checks that he has issued for the first period, which we could not accept. We had to explain that the tax would be collected by us only on the number of checks paid and charged in his account. Checks have been drawn on the bank with either a 2-cent revenue stamp or a 2-cent postage stamp affixed thereto. . . The most confusing thing about the tax on checks results from the attempt by customers to use the counter receipts as a check. Our counter receipts are printed on red paper and readily distinguishable. Many customers will pick up and carry away a pad of these red receipts and about the following day some office clerk or colored porter will walk in with one of these receipts expecting to withdraw the depositor's money. Sometimes the depositor gets pretty sore when we send his agent back with information that the receipt simply must be presented personally by the depositor. As would naturally be expected, many large firms are endeavoring to originate and put into use a draft on themselves which can be paid through the bank and taken up with one check at the close of the business day. All these things indicate resentment against the tax, although I guess there is nothing new in that sentiment. I have never yet known anybody who was crazy about paying taxes. . .

NOT A BANK TAX

OUR customers realize that it is a Government tax and that we are only acting as agents of the Government in collecting it. Of course, some of our customers complain and feel that the bank should absorb the tax, but we have on the whole encountered little difficulty in explaining to them our position. . . The chief cause of misunderstanding up to date is the fact that in some cases a customer expects to put a stamp upon each check instead of having it charged to his account, and we have had a number of cases where the customer has applied 2-cent stamps to the checks unwittingly. . . A New York clothier is deducting 2 cents from each employee's payroll check. . . There are a few cases wherein it has been necessary for us to explain the tax law and again, quite a number of people had an idea that they would have to purchase stamps to affix to their checks. . . So far as misunderstandings are concerned we noted the first day three checks which had 2-cent postage stamps affixed. . . Many feel that it is a tax on banking and that banks are just passing it along to the depositor. Still others feel that it is just an additional charge for banking service. . . Some depositors try to add 2 cents to the amount of check or hand us 2 cents to pay, but they'll get over that. . . We have had numerous inquiries requesting us to allow individuals to use the receipt form of counter check to avoid tax, and have declined to honor their requests until definite advice from the Treasury Department has been received, which is not as yet forthcoming. . .

One of the chief difficulties that we are experiencing is that customers, especially corporations, desire to draw a draft on their own treasurer so as to avoid the tax, making the draft payable at or through the bank. . . We have had a number of customers who have resorted to the use of drafts which they take up with checks every day, and in those cases we take an agreement to protect us in case there should be an adverse ruling on this practice. . . To date the public's reaction to the new tax has been unfavorable, but they may become reconciled and resume writing more checks as time goes on. It is difficult for many individuals to understand that the tax collected by banks goes to the Government, as they feel there is possibly a percentage of it retained by the banks and that it is only an additional tribute that banks are collecting from customers. . . I am frank to admit that there is not much sympathy nowadays extended to the banks. We will take our medicine without complaint. I think that many of those who close their accounts will reopen. . .

Our prediction is that the public will gradually accept the tax on personal accounts, but business organizations generally will continue to avoid it.

Attorney General Renders Opinions on National Bank Note Circulation

> **"I find nothing in the legislative history which indicates that it was the purpose of Congress in adding Section 29 to the Federal Home Loan Bank Act to provide for a permanent expansion of the currency beyond the three-year period"**

IN a letter to Secretary of the Treasury Mills, under date of August 12, 1932, Attorney General Mitchell rendered opinions on two questions in connection with the issuance of notes by national banks under the Federal Home Loan Bank Act of July 22: (1) as to whether the Treasurer of the United States should collect ½ of 1 per cent or ¼ of 1 per cent each half-year upon the circulating notes issued under Section 29 of the Federal Home Loan Bank Act, and (2) whether Section 29 requires bonds deposited with the Treasurer of the United States thereunder as security for the issuance of circulating notes to be withdrawn as such security at the expiration of three years from the date of the Act.

Mr. Mitchell quoted Section 29 and pointed out that notes issued in accordance with this statute were subject to the same conditions under which are issued circulating notes secured by 2 per cent gold bonds of the United States.

One of the conditions, he stated, under which the latter notes are issued is that prescribed by Section 13 of the Act of March 14, 1900, as follows:

> "That every national banking association having on deposit, as provided by law, bonds of the United States bearing interest at the rate of two per cent per annum, issued under the provisions of this Act, to secure its circulating notes, shall pay to the Treasurer of the United States, in the months of January and July, a tax of one-fourth of one per cent each half year upon the average amount of such of its notes in circulation as are based upon the deposit of said 2 per cent bonds; and such taxes shall be in lieu of existing taxes on its notes in circulation imposed by section fifty-two hundred and fourteen of the Revised Statutes."

Attorney General Mitchell's opinion continued:

"Since Section 29 of the Federal Home Loan Bank Act provides that, with an exception not material here, the notes issued pursuant to that statute are to be issued upon the same conditions as are provided by law in the case of 2 per cent gold bonds of the United States bearing the circulation privilege, and since it is clear that the tax upon notes based upon the deposit of said 2 per cent bonds is now one-fourth of 1 per cent semi-annually, it seems entirely clear that this is the rate of tax applicable to notes issued pursuant to the provisions of the Federal Home Loan Bank Act. While the provisions of Section 29 which bear upon this question are so clear that resort to the legislative history as an aid to construction seems to be unnecessary, I have examined the legislative history, and while there is very little material which bears upon this particular question, such as there is clearly supports my construction of the statute. (See Congressional Record, Vol. 75, No. 169, p. 15380, 72d Cong., 1st Sess.)"

Referring to the second question mentioned above, Mr. Mitchell's letter reads in part as follows:

"The problem presented appears to me to be whether the provisions of Section 29 require that the circulation privilege of bonds deposited pursuant to that section shall cease three years after the date of the enactment of the Act or whether the Act merely means that after three years no more of such bonds may be deposited and accorded the circulation privilege without, however, affecting the circulating privilege of bonds deposited within the three-year period, leaving such circulation privilege outstanding during the entire remaining life of the bonds deposited. The effect of the first construction is, of course, to permit a temporary expansion of the currency which is to terminate at the end of three years, while the effect of the latter construction would be to effect an expansion of the currency which would be permanent during the life of the bonds to which the circulation privilege was accorded.

"It must be admitted that the language of the statute is not entirely free from ambiguity, and, in order to determine the intent of Congress and construe the language of the statute so as to effectuate that intent, it seems to me proper and necessary to resort to the legislative history of this provision. The only committee report which deals with the section is the Report of the Conference Committee, in which the following statement is made by the managers on the part of the House with respect to the provisions of Section 29 (H. Rep. No. 1775, 72d Cong., 1st Sess.):

> Amendment No. 46: This amendment authorizes United States bonds bearing interest at a rate not in excess of 3⅜ per cent to bear the circulating privilege for a period of three years after the enactment of this act.***

A careful examination of the debates in the Senate and House dealing with this provision has also been made. Several statements in the course of such debates by those who may be regarded as sponsors of this legislation and others throw light on the intention of Congress."

At this point, the Attorney General quoted excerpts from the debates in Congress and concluded:

"I find nothing in the legislative history which indicates that it was the purpose of Congress in adding Section 29 to the Federal Home Loan Bank Act to provide for a permanent expansion of the currency beyond the three-year period.

"Reading the provisions of Section 29 in an effort to carry out the intent of Congress as disclosed by the legislative history of the measure, it is my opinion that the three-year period prescribed by Section 29 means that the bonds referred to in said section lose the circulation privilege at the end of the three-year period and the notes issued upon the deposit of such bonds must be retired in an appropriate manner."

Commodities Are in the News

(CONTINUED FROM PAGE 37)

the Annalist's wholesale commodity price index recorded the following percentage of declines:

July, 1929—Jan., 1930	.....	6.3 per cent.
Jan., 1930—July, 1930	.....	12.8 " "
July, 1930—Jan., 1931	.....	6.1 " "
Jan., 1931—July, 1931	.....	11.6 " "
July, 1931—Jan., 1932	.....	7.0 " "
Jan., 1932—July, 1932	.....	0.9 " "

The periods of heaviest declines were the first half of 1930 and the same half of 1931, while in the first six months of this year prices held with comparative stability, moving within a radius of less than 1 per cent in the half-year. If precedent is a guide, this period of stability will be followed in due time by the recovery which will signalize the end of the business depression. Just when that recovery will take place, and under what conditions it will be ushered in, are the unknown quantities in the equation.

Coincident with the spectacular rise in security prices which took place on all our principal exchanges in late July and the first two weeks in August, wheat, cotton and other important commodities enjoyed the most sustained advance that has been recorded since the turn of the year.

Stimulus for the rise in wheat was furnished by the Government's crop forecast, published on August 9, which estimated the total production of Spring

Contrary to popular belief, former depression periods have been as long drawn out and as severe in their effects on general business and sentiment as the one we are now facing. After the panic of 1893, the low point of discouragement did not come until 1896, and the upturn in commodity prices was not inaugurated until the middle of 1897. Preceding and accompanying the panic of 1873 was a five-year, uninterrupted decline in commodity prices which carried the general level 30 per cent under 1872. Business was virtually at a standstill and the shadow of receiverships hung heavily over railroad and industrial corporations

•

and Winter wheat at 722,687,000 bushels, a 2 per cent drop from the July estimate and 13 per cent under the 1924-28 average. Thus September wheat in Chicago, which was quoted in mid-July at 47 cents a bushel, registered an advance to 55½ cents and the December option sold at 60 cents, compared with 50⅛ cents a month earlier.

The Government's forecast on cotton was considerably under the unofficial estimates, and showed the smallest crop since 1923, with an estimated total of 11,306,000 bales. Such a forecast was bound to precipitate a violent speculative buying movement.

There is considerable comfort in the fact that after an almost continuous decline of three years' duration, the commodity markets have thus shown signs of decided recovery. In many sections of the list these recoveries have ranged from 10 to 30 per cent, and in unusual cases the rally from the extreme bottom has approximated 100 per cent.

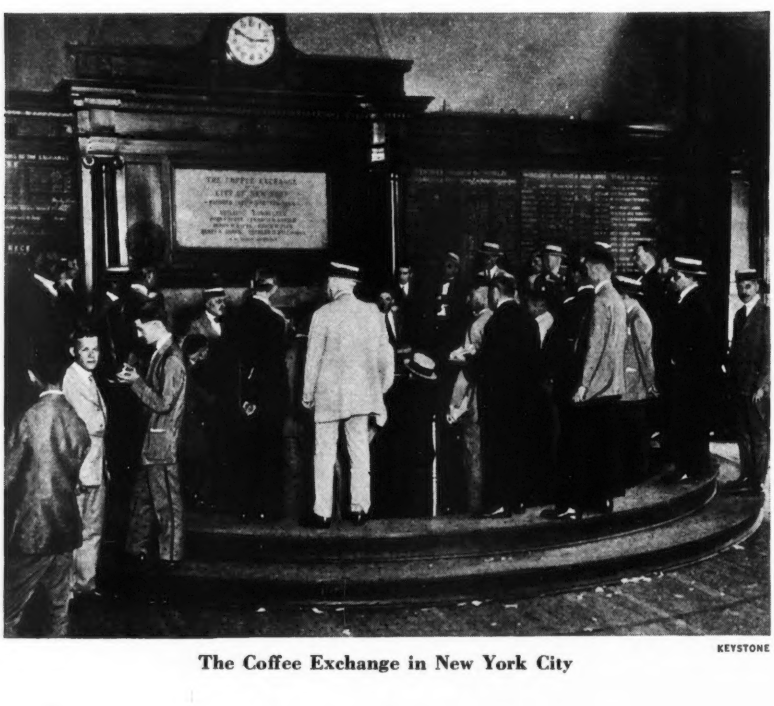
Commodity prices are ruled almost exclusively by the so called technical position of the products themselves—that is, the relation of supply to demand. When supplies become burdensome and the channels of outlet clogged by unwillingness or inability of the world's markets to buy, reaction inevitably sets in and continues until something happens to call a halt. That something is usually the gradual easing up of the weight of excess supply through the logical scaling down of production and the marketing of surplus through cooperative efforts of various kinds. Distress selling by corporations and individuals is generally regarded as a sign of the approaching end of an industrial and business depression.

When July wheat dipped early in July to 44½ cents a bushel at Chicago, the farmer who produced the grain received about 23 cents a bushel. The high price for July wheat for this season was recorded on November 7, 1931, at 73¼ cents. In company with corn and oats, wheat has rallied moderately since the first week in July, but the world's markets have been obliged to absorb an enormous volume of Argentine and Canadian wheat in recent weeks, and the American carry-over is now the largest on record.

Cotton, currently selling around 7¼ cents a pound, has rallied about 2½ cents a pound from the low of the season. One year ago the southern staple was quoted at 8½ cents a pound, two years ago at 12¾ cents and three years ago at 19½ cents. When the Farm Board started its price "stabilization" activities, cotton was quoted around 17 cents.

With a carry-over of 13,000,000 bales from last year and a crop estimated by the Government at 11,300,000 bales, the cotton market faces an accumulation of more than 24,000,000 bales, with world consumption of American cotton estimated at 11,500,000 bales. Under any circumstances a huge surplus must be worked into consumption before prices can recover any considerable distance. Market experts believe that the liquidation of the Farm Board and cooperatives' holding of 3,500,000 bales of cotton will exercise a check on prices for the remainder of the year.

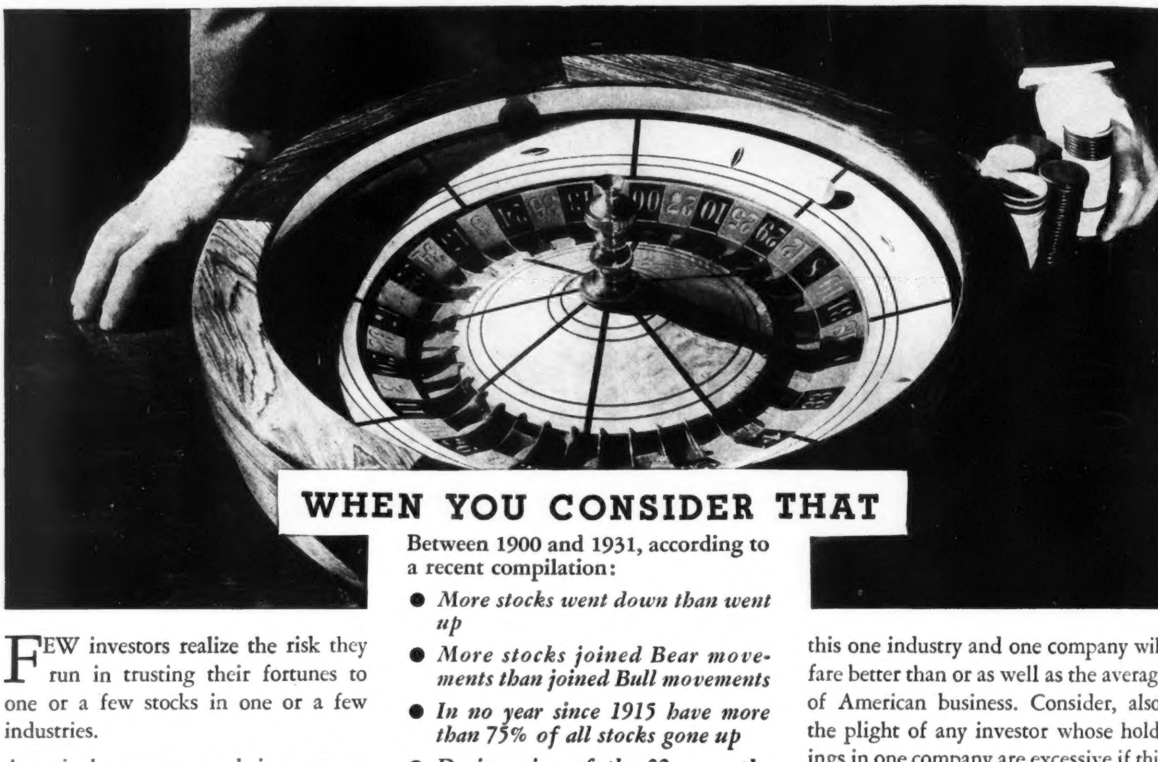
Hogs have (CONTINUED ON PAGE 66)



KEYSTONE

The Coffee Exchange in New York City

How Good Is ONE Good Common Stock?



WHEN YOU CONSIDER THAT

Between 1900 and 1931, according to a recent compilation:

- *More stocks went down than went up*
- *More stocks joined Bear movements than joined Bull movements*
- *In no year since 1915 have more than 75% of all stocks gone up*
- *During nine of the 32 years the chances were more than four to one against picking a stock that would go up. (Only in 1904 and 1909 were these "odds" reversed.)*

Yet, the stock market averages during this long period rose 177%.

FEW investors realize the risk they run in trusting their fortunes to one or a few stocks in one or a few industries.

A typical common stock investment might include, for example, 50 shares of American Can, 30 shares of General Foods, 20 shares of Woolworth, 5 shares of American Telephone & Telegraph—all good common stocks. How unbalanced such an investment is will be indicated by the fact that the investor has about 57% of his funds in one company—American Can—and one industry, and representation in only four industries. There is no reason to feel confident that this one industry and one company will fare better than or as well as the average of American business. Consider, also, the plight of any investor whose holdings in one company are excessive if this one company should pass its dividend.

In building the portfolio of NORTH AMERICAN TRUST SHARES, 1955 and 1956, a Supervised Unit Type Trust—the largest of its kind in the world—a scientific method for common stock diversification was employed. It will interest you. It is fully explained in a booklet called "Building a Portfolio". We shall be glad to send you a copy free of charge on request.

North American TRUST SHARES

Deposited Stocks in Each Unit of **North American Trust Shares, 1955** *Maximum Cumulation Type*

As of October 17, 1931, the date of execution of the Trust Agreement, a stock unit consisted of the shares listed at the right. • The deposited stocks in each unit of NORTH AMERICAN TRUST SHARES, *1956 (Maximum Distribution Type) consisted on that date of 1/25 of the number of shares shown.*

E. I. duPont de Nemours & Company	200	Otis Elevator Company	200
Eastman Kodak Company	100	International Harvester Company	100
The Procter & Gamble Company	100	The American Tobacco Company "B"	100
Union Carbide & Carbon Corporation	300	R. J. Reynolds Tobacco Company "B"	200
General Electric Company	400	General Motors Corporation	200
Westinghouse Electric & Mfg. Company	100	Standard Oil Company (New Jersey)	300
United States Steel Corporation	100	Atchison, Topeka & Santa Fe Ry. Co.	100
The Borden Company	200	The New York Central Railroad Company	100
Corn Products Refining Company	100	The Pennsylvania Railroad Company	100
General Foods Corporation	100	Union Pacific Railroad Company	100
National Biscuit Company	200	American Telephone & Telegraph Company	100
Standard Brands Incorporated	200	Columbia Gas & Electric Corporation	400
Drug Incorporated	100	Consolidated Gas Company of New York	200
Sears, Roebuck & Company	200	The North American Company	200
F. W. Woolworth Company	200	Pacific Gas & Electric Company	200
American Can Company	100	Public Service Corporation of New Jersey	100
American Rad. & Stand. Sanitary Corp.	300	The United Gas Improvement Company	300

The offering price of NORTH AMERICAN TRUST SHARES *is based upon and varies with the actual New York Stock Exchange 100-share lot transaction prices of the underlying stocks during market hours. (Full details of method of calculating offering price are contained in the Offering Circular.)*

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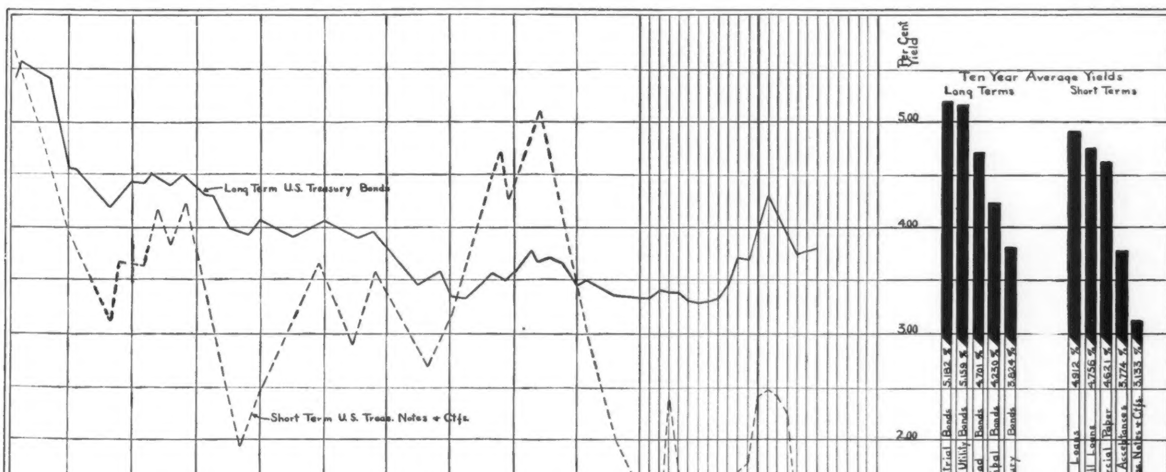
The Condition of BUSINESS

IN NORMAL times the business year is characterized by two more or less distinct peaks of activity, one in the spring and one in the fall. The recession between the fall peak and that of the following spring is usually a moderate one because of the holiday demand for goods, so that the year's most pronounced lull in trade comes in the summer. Not since 1928, however, have we witnessed this customary procession of events. So, the question that confronts us as we move into September is: "Have we returned to a sufficiently normal state where at least seasonal tendencies will once more assert themselves?"

On the basis of the usual statistics, through the end of July there was no definite improvement, while up to mid-August there was only scattered testimony which had not found its way into statistics. Yet we know that since July 8 when stocks reached the low of the bear market to date, stock prices have enjoyed the most sustained rise in two and a half years, while other financial markets have moved in sympathy. Obviously somewhere, if not in the indices of business activity, the financial markets have seen something to encourage them. Where has such evidence been visible?

This encouragement lies in four directions: in the banking and financial situation, in commodity prices, in further mobilization of defences against the depression through the various reconstruction agencies, and in the security markets themselves.

It has now become increasingly clear that unless the next Congress should adopt some grossly inflationary piece of financial legislation—and in the light of the two major party platforms this seems almost inconceivable—we have seen the end of the depression's financial panic. Since the last flare-up in bank failures the suspensions have declined about 50 per cent, but this has not been the only indication of an improved banking position. Thanks to a decline in hoarding, to the Federal Reserve's open market operations and to the reversal of the gold movement, member bank borrowings in the week ended August 10 fell to $452,000,000, the lowest figure touched since last September. Circulation, which is now regarded as a rough measure of hoarding, declined approximately $70,000,000 between the first of July and the middle of August, while the country added $96,000,000 to its stocks of gold during the eight weeks ended August 10.



The average yield of high grade public utility bonds for the past 10 years has been 5.159 per cent, and that of the United States Treasury issues 3.824 per cent, or an average differential between the two of 1.335 per cent in yield. In like manner, the average differential in yield between 90-day bankers' acceptances and Treasury notes and certificates is .641 per cent.

Such average differentials can profitably be kept in mind when deciding purchases, sales or exchanges of various forms of investment. If, for example, high grade public utility bonds were selling at the moment to yield 1 per cent more than the long term Treasury issues, experience during the past 10 years indicates that in time the spread in price between the two will widen until perhaps there is a difference in yield of 2 per cent, at which time one might expect a reversal of the trends. The same experience rule can be applied to all other long and short term investments

Moreover, member bank credit, the expansion of which the Federal Reserve has been seeking to attain since February, turned sharply higher the first week in August.

Equally important during the month July 15-August 15 was the stability shown by commodity prices. Competent observers have been in agreement that, although commodity prices might not of themselves point the way to the recovery, no substantial upturn could be expected until they flattened out.

INFLUENCES AT WORK

AS for the more conscious influences which have been at work during the past month in the business situation, the following may be mentioned:

1. The decision of the Interstate Commerce Commission authorizing the railroads of the eastern territory to proceed with their four-system consolidation plan.
2. Organization of the system of Home Loan banks to strengthen the small home mortgage situation.
3. The opening up of the Reserve banks to borrowers directly.
4. Expansion of the activities of the Reconstruction Finance Corporation to provide funds for necessary railway improvements and equipment purchases, and for the purchase by processers of raw materials where banking facilities are not otherwise available.
5. The functioning of the Glass-Borah amendment to the Home Loan Act, permitting national banks to issue currency against long-term Government loans bearing 3⅜ per cent or less.

Regarding the desirability of some of the latest activities of the Reconstruction Finance Corporation there exists an honest difference of opinion, but so far as the country as a whole is concerned, the tendency has been to regard them not singly but as part of a broad general program to overcome the forces of psychological deflation by making credit readily available to all who require and rate it. Similarly, the Home Loan Bank System is not to be regarded, as some of its enthusiastic proponents would have us believe, as a remedy for all the abuses in the field of mortgage financing which have taken place in recent years, or as the beginning of a new building boom throughout the country. The system can and should help, however, to ease the general situation by reducing the number of needless foreclosures and by protecting those whose ability to meet such obligations is only temporarily impaired. As for the aid provided the banking position by the Glass-Borah "rider" to the Home Loan bill, that has perhaps been fortuitous, but it has been none the less genuine. What it has done has been to provide a strong market for the low coupon Treasury issues, thereby putting the banks, which are the principal holders, in a much stronger position than before the law became effective. By the middle of August $160,000,000 in market value had been added to one issue alone, the Treasury 3s. Banks which held these bonds at 80 a few weeks found them hovering around par by mid-August, a circumstance which obviously is calculated to affect the lending policies of these institutions.

No business review of the past month would be complete if it ignored the stock market. For good or ill, nearly everybody in the country today has a stake in it, if not directly, at least indirectly; and it is largely because of this, many believe, that the 1929-1932 decline carried to such extremes of pessimism. When the stock market, between mid-July and mid-August, added $10,000,000,000 to listed values, it added $10,000,000,000 to the purchasing power of the nation. That is a powerful lever, from any standpoint, operating in the direction of a business upturn.

GOLF TROPHY

Only Ex-Presidents of the American Bankers Association are eligible to compete for this—the Ex-Presidents'—Trophy which is awarded each year at the annual Convention. The lowest net score wins possession for one year. Winning the trophy three times gains permanent possession

Recently—

(CONTINUED FROM PAGE 9)

DISARMAMENT, WORLD CONFERENCES

THE first world disarmament conference adjourned on July 23, agreeing to resume its work not later than next January 21. Meanwhile the arms truce which accompanied the conference is continued until that time, China alone abstaining from committing itself on this point. Before the adjournment, compromise agreements on principles were reached on July 19 by representatives of Great Britain, France and the United States concerning "effectives", air bombing, tanks, and budgetary limitations. Italy's action, however, was rescinded by Premier Mussolini, who the following day had constituted himself Foreign Minister. Mussolini sent word that the resolution of the conference was "entirely inadequate when compared with the wishes and hopes of the world."

In a radio broadcast from Washington on July 23, Senator Borah, chairman of the Senate Committee on Foreign Relations, urged a conference dealing with all questions pertaining to world economic recovery, "including revision or cancellation of debts."

BUSINESS, INDUSTRY, FINANCE

ALTHOUGH business showed little improvement during the month July 16-August 15, the financial markets were strong over most of the period. The rise in the stock market between July 8, the date of the signing of the Lausanne Agreement, and August 11 was the longest since the spring of 1930, while bonds advanced with few interruptions from June 1 to the middle of August. Commodity prices held steady throughout the period, with cotton and wheat rising sharply.

The Federal Power Commission, in a preliminary report on a year's study of utility holding companies, declared on

July 19 that public interest required their regulation. The railroads on July 20 issued a statement, addressed "to the public", pledging themselves to avoid all waste, and asking popular support. At the same time they formed an organization, the "Presidents' Traffic Conference," to end destructive rate warfare, and expanded the functions of the Presidents' Conference. A day later, on July 21, the Interstate Commerce Commission announced its approval of the consolidation of the eastern railroads, with the exception of the New England roads, into four systems. The Chicago Board of Trade was suspended for 60 days, on July 23, by the Grain Futures Commission for "discrimination" against the Farmers National Corporation, a Farm Board sponsored cooperative. Directors will appeal from the order to the Federal courts. From Paris it was reported, July 23, that American and British oil producers had reached an agreement with Rumanian competitors which was expected to bring an end to international price wars. The United States Steel Corporation declared the regular quarterly dividend of $1.75 a share on the preferred stock on July 26, but served notice that the continuance of such payments would be predicated upon improvement of business. The company's report for the three months revealed an operating deficit of $14,565,013, about $1,000,000 greater than that of the first quarter.

The Austrian Government, it was announced on July 29, had defaulted, technically at least, on its League of Nations loan, issued in 1923 in the amount of $126,000,000. United States exports to France were curbed by measures enacted by that country on August 1, with copper, fruits, hides, skins, and office equipment most affected. Because of the foreign exchange control, the Bank und Disconto Gesellschaft will be unable to repay in dollars its 6 per cent $25,000,000 loan maturing September 1, it was announced on August 2. Two alternatives are offered bondholders: they may accept payment in marks, or agree to a three-year prolongation of the loan.

A New York Stock Exchange seat changed hands on August 4 at $120,000, reflecting the increased trading activity in shares. This compares with a low price for seats earlier in the year of $62,500.

Robert P. Lamont retired as Secretary of Commerce on August 3, and the following day it was announced that he would head the American Iron & Steel Institute, Charles M. Schwab resigning as president and assuming the chairmanship. Mr. Lamont was succeeded in the Department of Commerce by Roy Dikeman Chapin, former chairman of the board of the Hudson Motor Car Company. The London "Economist," in a leading article on August 5, expressed the opinion that "the crisis in America is past." The value of listed stocks on the New York Stock Exchange increased from $15,638,479,577 to $20,494,759,465, or 31 per cent, in the month of July, according to the monthly bulletin of the Exchange, published August 6.

Books in Brief

Paragraph Reviews

"ECONOMICS of the English Banking System," by William J. Weston (Pitman & Sons, London), is a simple and clear-cut account of how the English banking system operates, particularly in relation to the help it affords merchant and manufacturer. Quoting from the foreword:

"The closely allied sciences of money and banking have until comparatively recently not excited much general interest; their study has been left principally to bankers and others whose daily work compelled some study and knowledge of them. Public neglect and ignorance of our banking and monetary systems can no longer be regarded as a matter of no great importance."

The author discusses among other topics the economic services of the banker, reserves, the gold standard and the Bank of England as a central bank. For a clear, concise explanation of the English banking system the book is highly commendable.

RESULTS of the study made by two committees appointed by the President and the Secretary of Commerce are set forth in "Home Finance and Taxation; Reports of the Committees on Finance and Taxation of the President's Conference on Home Building and Home Ownership," (published by the Conference, Washington, D. C.). It is a valuable handbook for those interested in home building.

DESIGNED primarily as a textbook for courses in money and banking in American colleges, "Principles of Money and Banking" by Russell D. Kilborne (McGraw-Hill) was first published in 1927 and has had three revisions, the last a recent one.

NEWTON D. ALLING'S "Modern Developments in Banking" (Bankers Publishing Co.) is written, according to the title page, for "the man in the street." It covers the fundamentals of commercial banking, the Federal Reserve System and credit control.

"SMALL Loan Legislation; A History of the Regulation of the Business of Lending Small Sums" by David J. Gallert, Walter S. Hilborn and Geoffery May (Russell Sage Foundation), is one part of the Foundation's general survey of small loans.

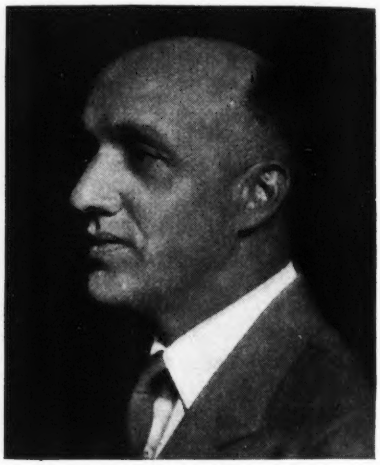
SIR ARTHUR SALTER, Sir Josiah Stamp and four other leading economists of England are contributors to the volume, "The World's Economic Crisis and the Way of Escape" (Century). These are the Halley Stewart Lectures, 1931, pertaining to the current financial situation. A brief biographical note on each contributor is included.

A NOVEL analysis of the chain of events that, based upon natural human instincts, must inevitably be followed by depressions, is presented in "Men, Money and Mergers" by George L. Hoxie (Macmillan). The closing chapter indicates the normal way out.

NEW STATE ASSOCIATION PRESIDENTS

EDWARD B. MAUPIN

S. W. KEYS



L. E. LUNENSCHLASS

Mr. Maupin, cashier of the People's National Bank of Shelbyville, heads the Tennessee Bankers Association for the coming year. The Virginia association's new president is Mr. Keys, vice president and cashier, Bank of Glade Spring. Mr. Lunenschlass, vice president of the Security State Bank of Madison, heads the Wisconsin association

The Federal Home Loan Bank Act

(CONTINUED FROM PAGE 24)

eral program of banking business.

Without undertaking to give full consideration to the question, doubtless a liberal interpretation of the term "savings bank" will be made by the Board, especially as in the original bills introduced to carry out the suggestion of President Hoover, banks of all kinds were included; the initial capital was to be subscribed "by any bank or banking association, including savings banks, trust companies, insurance companies, building and loan associations, or other institutions duly organized under the laws of any state or of the United States and subject to inspection and control of the banking laws or other similar regulations of the state or of the United States." Furthermore, the exception from eligibility in Section 27 of the Act of "a national bank, trust company, or other banking organization, organized under any law of the United States" is not to be interpreted as applying to banks or trust companies organized under state law as the purpose of the Section is to authorize institutions organized under Federal law to become members if otherwise eligible.

RESTRICTION UPON EXCESSIVE CHARGES

AN important provision, which applies only to home mortgage loans made after enactment of the law, denies admission to or retention of membership by any institution which charges a home owner a net cost for accommodating him in excess of the maximum legal or contract rate of interest or, in the absence of any rate, in excess of 8 per cent per annum in the state where the property is located. We quote the provision:

"Sec. 5. No institution shall be admitted to or retained in membership, or granted the privileges of non-member borrowers, if the combined total of the amounts paid to it for interest, commission, bonus, discount, premium, and other similar charges, less a proper deduction for all dividends, refunds, and cash credits of all kinds, creates an actual net cost to the home owner in excess of the maximum legal rate of interest or, in case there is a lawful contract rate of interest applicable to such transactions, in excess of such rate (regardless of any exemption from usury laws), or, in case there is no legal rate of interest or lawful contract rate of interest applicable to such transactions, in excess of 8 per centum per annum in the state where such property is located. This section applies only to home mortgage loans made after the enactment of this Act."

LOANS ON OTHER THAN HOME MORTGAGES

THE Act requires each Federal Home Loan bank to invest an amount equal to its paid-in capital and its current deposits received from members and from non-member borrowers in (1) obligations of the United States, (2) deposits in banks and trust companies, (3) advances to member and non-member borrowers with maturity not greater than one year, upon such terms as the Board may prescribe, and (4) advances with maturity not greater than one year, upon terms prescribed by the Board, without the security of home mortgages or other security "to members or non-member borrowers the amount of whose creditor liabilities (not including advances from the Federal Home Loan Bank) does not exceed 5 per centum of such member's or non-member borrower's net assets."

Under this last stated provision, notwithstanding the Act provides that "no Federal Home Loan Bank shall transact any banking business not expressly authorized by the Act" it would seem that these Federal Home Loan banks are authorized to conduct a general banking business, loaning their capital and deposits other than upon home mortgages and without any security whatever, to all members and non-member borrowers who do not owe, outside of what they owe the Home Loan bank, more than 5 per cent of their net assets.

RESERVES AND DIVIDENDS

THE Federal Home Loan banks must carry to a reserve account semi-annually 20 per cent of their net earnings until the reserve equals 100 per cent of the paid-in capital, after which 5 per cent of the net earnings must be added semi-annually. In case of impairment below 100 per cent, the reserve must be re-

stored before any dividends are paid. The Board may, from time to time, require the establishment of additional reserves and charge-offs on account of depreciation of assets. Dividends can only be paid out of net earnings remaining after all reserve requirements and charge-offs are met and then only with the approval of the Board. All stock in Federal Home Loan banks is to share in dividend distributions without preference except that Government stock is entitled to 2 per cent cumulative dividends annually and in any case where the dividend rate is in excess of 2 per cent, the Government is entitled to the same rate as paid on other stock.

INVESTMENT OF RESERVES

RESERVES must be invested, subject to regulation of the Board, in direct obligations of the United States and in such securities as are legal for fiduciary and trust funds under the laws of the state where each Federal Home Loan bank is located. Such part of the assets (except reserves and except an amount equal to capital and deposits, the investment of which is otherwise provided for) as the bank may deem available and as is not required for advances to members or non-member borrowers, may be likewise invested.

BOND ISSUES

THE Act provides for the issue of bonds and debentures having maturity determinable by the Board, to be secured by the transfer of eligible obligations of borrowing institutions on advances made by the bank to such institutions and by the deposit of home mortgages. The Board will prescribe rules and regulations covering the deposit, substitution and release of securities and the conditions under which they may be issued and retired and is authorized to appoint a registrar in each district, not connected with or interested in any Federal Home Loan bank or borrowing institution.

The securities deposited in trust must be so maintained that the aggregate unpaid principal of home mortgage loans secured by home mortgages deposited as security must be at all times, as nearly as possible, not less than an amount equal to 190 per cent of the total outstanding amount of the issue. Where cash or United States obligations are deposited in lieu of the deposit of home mortgages, the cash will be security for an equal amount of bonds and debentures and Government obligations will be security at their par value. The rates of interest (CONTINUED ON PAGE 58)

Railways vs. Busways and Truckways

(CONTINUED FROM PAGE 21)

express. Their service in so far as it concerns general freight is in fact an express service designed to serve where speed and personal handling are essential.

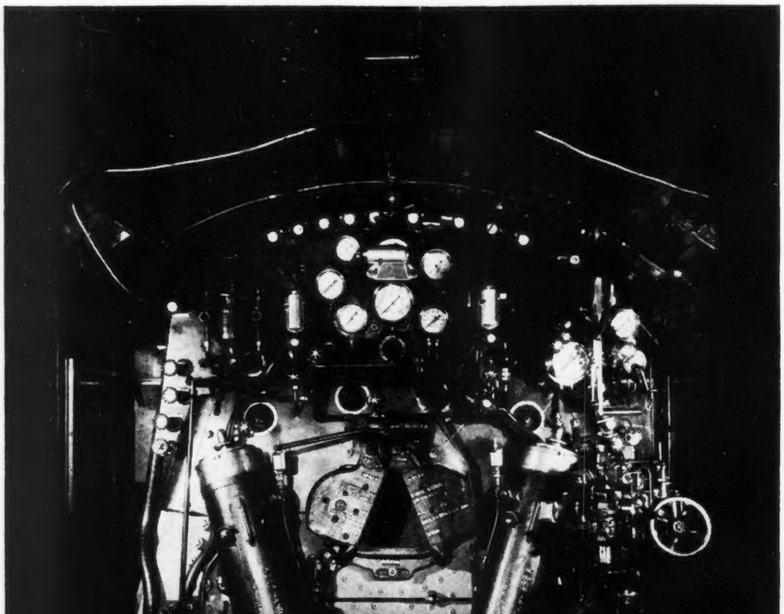
Regulation of road haulers is also necessary in the interest of a normal and regular flow of traffic of all kinds of commodities entering into the complex life of modern times. It would appear to be only the part of good sense to establish reasonable regulations and co-operation between the various types of transportation so that the ruinous competition not only between the different types but also between the many units of the different types should cease, and each type have profit.

Although the competition from air lines, water carriers, pipe lines and power lines is considerable, the road haulers constitute the railroads' bitterest competitor. Emphatically they have a place, and a very important one, in the transportation scheme. They are just now beginning to find themselves. In this settling process, however, they should not be permitted to wreck the entire transportation structure in order to bring lowered costs in the carrying of a few items.

The crisis in transportation affairs is not limited to the people who ship and receive commodities, or to those who travel, but also to those who hold railway securities. Their number is legion. Possibly 1,000,000 persons in the United States are stockholders in American railways. The number of bondholders cannot be estimated, because few bonds are registered. Most of them pass from hand to hand. There is scarcely any doubt but that the number of bondholders greatly exceeds the number of stockholders.

Many persons who have no direct ownership of railroad stocks or bonds have an interest in them. These stocks and bonds secure their deposits in banks. The popular interest does not stop here. Insurance companies, foundations of many kinds, hospitals, colleges and universities, and investment trusts all have as a backlog railroad bonds. The 52,000,000 savings depositors in the banks of the United States look to the welfare of the railroads for the security of their $28,000,000,000 in deposits. The 68,000,000 individuals carrying life insurance policies in the United States lean heavily upon the railroad bonds for the payment of the funds which will help them in their old age or assist their dependents along a not too charitable road.

The funded indebtedness of the railroads, represented by bonds of various kinds, totals substantially the same sum as that borrowed from the United States during the World War by the Allies, excluding Russia, and the interest on it until these debts were funded. Popular interest in the foreign obligations to us has been at white heat for the last decade. When once the savings depositors, insurance policyholders, and those dependent upon foundations realize the imminent danger of loss which may accrue through the failure of Congress or of the regulatory bodies to safeguard the rate structure in transportation, there will be a day of reckoning. It is inconceivable to think of a situation, bad at present, being allowed to continue indefinitely.



NEW YORK CENTRAL

This view inside the cab of a railroad engine inspires greater respect for the engineer and a better realization of the tremendous equipment investment of the carriers. Gauges and gadgets, gadgets and gauges. Each is there for a purpose

Wheat—from Winnipeg West

(CONTINUED FROM PAGE 26)

But 1929, with its growing depression, witnessed a drying-up of European purchasing power, not only for wheat but also for other commodities.

At the same time the bumper crop of 1929 in Europe precipitated extreme tariff action by the governments of the three major wheat importing countries in order to protect their farmers from the lowering of prices due as much to universal price recession as to the bumper supply. Germany had huge reserves of rye and cut down her wheat consumption through the adoption of measures on behalf of rye and wheat producers. France had a surplus of wheat and put on export subsidies. Italy had a small deficit as far as wheat was concerned. All these countries raised their wheat tariffs in 1929 and again in 1930.

The 20th Report of the Imperial Economic Committee, entitled "The Wheat Situation 1931", further describes, as

follows, the Canadian marketing position from 1928 to 1931:

"Throughout the crop year 1928-29 the Pool in common with private dealers in Canada, was faced with a difficult marketing problem. The crop was the largest ever harvested in Canada and was characterized by an exceptional percentage of the low grades—No. 3 wheat and below. The market was weak throughout the year and it is the low grades which in such circumstances are as a rule most difficult to sell.

"Conditions in 1929-30 did not improve. The anticipations widely held in North America in the summer of 1929 that world wheat prices would improve in the autumn owing to the smaller harvest of that year were not fulfilled. Moreover, the Argentine crop proved to be very much larger and of better quality than was expected and European millers were able to use in their mix smaller proportions of Canadian wheat than had been anticipated. In the following year Russia came on the market on a large scale."

The results of the foregoing were written into the official records on July 31, 1931, when it was estimated that the carryover of Canadian wheat amounted to 140,000,000 bushels. This, although far below the official estimate for carryover in the United States, was much above normal and had a similar psychological effect upon the market.

RUSSIA'S CONTRIBUTION

MENTION has just been made of Russia's contribution to the Canadian wheat problem. Upon a market for which ample supplies were available elsewhere, there were pressed in the "wheat year" of 1930-31 about 112,000,000 bushels of Russian wheat, because the Soviet government urgently needed funds to pay maturing credits for equipment and services imported in connection with its gigantic plan for industrializing the country. In a double sense Russia's progress with her Five Year Plan contributed to the world wheat surplus in 1930-32.

CANADIAN COOPERATION

NOW from all that has been said it should be clear that Canada's wheat problem is only one unit in an international situation. Canada enjoys certain advantages in the growing of wheat, but it is wrong to suppose that any other country, although growing wheat inferior to the Canadian variety, will voluntarily stop producing it and import from Canada only. The rural populations in such countries might be faced with immediate ruin if they could not grow wheat. It is therefore in Canada's interests to co-operate whole-heartedly in any attempts that may be made to alleviate the present international conditions.

Minneapolis—BANKS AND CITIES

(CONTINUED FROM PAGE 31)

burn mill in 1878 created an emergency, but the money was advanced and the mill was at once rebuilt.

In spite of the tremendous rise of flour milling, the lumber industry had such a start that it continued to lead flour production in value throughout the 70's. The saw mills were not as costly as roller mills, but the business had to be financed from the felling of the trees to the distribution of the lumber.

Three new banks of that period assisting in mill and railroad building were the Minnesota Loan and Trust Company, founded in 1883 and now affiliated with the Northwest Bancorporation; the Minneapolis Loan and Trust Company, organized in 1888, now associated with the First Bank Stock Corporation and known as the First Minneapolis Trust Company; and the Marquette Trust Company, founded in 1889 and still in operation.

Flour milling rose from 7,000,000 barrels in 1890 to 16,000,000 barrels in 1900. Lumber production increased from 344,000,000 feet in 1890 to 500,000,000 feet in 1900, and then gradually declined as the pine forests were exhausted.

TODAY'S INDUSTRIES

TO-DAY Minneapolis is still supreme in the production of flour. Her elevators have a capacity of 66,000,000 bushels of grain. And her mills have a productivity of 78,000 barrels of flour daily—material for about 30,000,000 pound-loaves of bread a day, or enough for one to each family in the United States.

The linseed oil business has also been developed there until Minneapolis is said to be the largest producer of linseed oil and cake in the world.

The dairy business has grown until Minneapolis is one of the greatest butter and powdered milk producing centers in the country.

In returning goods for raw materials that have come in from the farms, Minneapolis has become one of the great manufacturing, wholesale and retail cities of the Northwest, and the center of its railroads, automobile highways and aviation.

But flour mills, lumber, linseed oil and dairying are not the only factors in the growth of Minneapolis. The city is served by ten trunk line railroads and is the gateway to the Pacific and Canadian Northwest. It is the head of navigation on the Mississippi River. And with St. Paul, the "Twin Cities" serve an urban population of over 800,000 persons, and a trade territory that embraces Minnesota, North Dakota, South Dakota and Montana, and the northern parts of Nebraska, Iowa, Wisconsin and Michigan.

The accompanying article on Minneapolis and its banks, from early pioneer days up to the present time, is one of the "Banks and Cities" series which Mr. Manchester is writing for the JOURNAL

Minneapolis' manufactures include also motor vehicles, bodies and parts, knit goods, foundry and machine shop products, and structural and ornamental ironwork. The city is the seat of the Ninth Federal Reserve Bank, and its 1,200 factories and 1,200 wholesale houses have an annual business of well over $1,000,000,000.

Rich in Indian lore, Minneapolis is proud of the Minnehaha falls made famous by Longfellow in "Hiawatha." It is becoming more and more a resort center in the state of 10,000 lakes, and has within the city limits six large natural lakes and many smaller ones. The city owns 131 parks, and is said to have a playground or neighborhood park for every square mile of residential area and more than an acre for each 100 of population. There are 56 miles of boulevards. The University of Minnesota is located there. Minneapolis is a city ranking high in percentage of home ownership, and has an index figure for the cost of living which is below the average among large American cities.

BROWN BROS.

A beauty spot in Loring Park in Minneapolis

The great wheat interest common to all regions throughout the Northwest has long impelled many of the banks to act in harmony, and this eventually led to affiliated groups.

In January, 1929, the Northwest Bancorporation was formed to affiliate banks and security subsidiaries in that section of the country. On December 31, 1931, it included 139 units, with the Northwestern National Bank as the center. E. W. Decker of Minneapolis is president of both this bank and the group.

In April, 1929, the First Bank Stock Corporation was formed, affiliating banks in the Ninth Federal Reserve District. On December 31, 1931, this group embraced 115 units, centering chiefly about the First National Bank of Minneapolis and the First National Bank of St. Paul. C. T. Jaffray of Minneapolis is chairman of the board and G. H. Prince of St. Paul is president.

The Federal Home Loan Bank Act

(CONTINUED FROM PAGE 55)

upon bonds and debentures will be approved or determined by the Board except that for the first seven years, the maximum annual rate must not exceed 5½ per cent and thereafter not exceed 5 per cent. The Board will provide such margins, not to exceed 1½ per cent between interest rates received upon advances and interest upon bonds and debentures, as will cover expenses of operation and reserves. The Federal Home Loan banks are made jointly and severally liable for the payment when due of all bonds and debentures. Obligations of Federal Home Loan banks are made lawful investments and may be accepted as security for all fiduciary, trust and public funds, investment or deposit of which is under the authority or control of the United States or any officer or offices thereof.

RETIRING OF GOVERNMENT STOCK

WHEN the amount of capital of a Federal Home Loan bank paid in by members equals the amount paid in by the Secretary of the Treasury, the bank must apply annually 50 per cent of all sums thereafter paid in as capital until Government stock is retired at par. Government stock may, in the discretion of the Federal Home Loan bank, with the approval of the Board, be retired in whole or in part at any time and the Board has power, at any time, when in

its opinion a Federal Home Loan bank has available resources therefor, to retire Government stock in whole or in part, provided accumulated dividends have been paid. The Board also has power to devote some part of the reserve to retirement of United States stock.

EXEMPTION FROM TAXATION

ALL notes, bonds, debentures and other obligations, principal and interest, issued by the bank are exempted from Federal, state or municipal taxation, except surtaxes, estate, inheritance and gift taxes. Likewise the Home Loan banks, including franchise, capital, reserves, surplus, advances and income are exempt from all Federal, state or local taxation except that real property of the bank is subject to state or local taxation to the same extent, according to its value, as other real property is taxed.

OTHER PROVISIONS

IN the above we have attempted a free summary of the main provisions of the Federal Home Loan Bank Act omitting, of necessity, many of the detailed provisions which cover such subjects as examinations and studies by the Board of the laws of the various states governing conditions under which eligible institutions are permitted to be formed, relating to land titles, etc.; provisions relating to examinations and reports, administrative expenses and unlawful acts and penalties.

We are also omitting any detailed reference to the rider, which became part of the Act, giving the circulation privilege for a period of three years to all Government bonds bearing interest not exceeding 3⅜ per cent per annum.

Events and Information Within the Association

(CONTINUED FROM PAGE 39)

porations. He was formerly president of the Citizens Trust and Savings Bank.

James R. Page, president and director, California Bank, Los Angeles. For many years engaged in investment banking.

Dr. A. H. Giannini, chairman of the general executive committee, Bank of America N. T. and S. A. and senior executive in charge of the bank's operations in southern California.

Ben R. Meyer, president of Union Bank and Trust Company, of which he was co-organizer in 1914.

Orra E. Monnette, vice-president, Bank of America N. T. and S. A. Since 1914 president of the board of directors, Los Angeles Public Library.

CONVENTION CALENDAR

(State Associations)

Sept. 2- 3	Wyoming Bankers Association, Rawlins, Wyoming
Sept. 7- 8	Maine Savings Banks Association, Rangeley Lakes, Me.
Sept. 8	Delaware Bankers Association, Rehoboth, Delaware
Sept. 15-17	Massachusetts Savings Banks Association, Swampscott, Mass.
Sept. 21-23	Savings Banks Association of New York, Rye, New York
Nov. 3-4	Nebraska Bankers Association, Omaha, Nebr.

A. B. A. MEETINGS

(Make your plans now to attend both of the Los Angeles meetings.)

Sept. 29-Oct. 1	10th Regional Trust Conference, Los Angeles
Oct. 3- 7	A.B.A. Convention, Los Angeles
Nov. 17-18	8th Mid-Continent Trust Conference, Milwaukee

1933 CONVENTIONS

May 23-24	Oklahoma Bankers Association, Oklahoma City
June 5-6	Illinois Bankers Association, Chicago
June 19-21	Iowa Bankers Association
June 20-22	Wisconsin Bankers Association, Green Lake, Wis.

How Much Do Banks Pay for Deposits?

(CONTINUED FROM PAGE 15)

deposit departments of the banks.

Members of nine clearinghouses, the Association's survey revealed, paid no more than ½ of 1 per cent on demand deposits, and three had split rates beginning with that figure. Twenty-one others said that their members were not paying more than 1 per cent on demand accounts, thus making 33 whose members, maintaining any rate at all on this kind of deposit, were paying 1 per cent or less. The clearinghouses whose members were either paying no interest at all or 1 per cent or less on demand deposits, therefore, numbered 144 or exactly 60 per cent of the 244 reporting institutions.

But even this does not tell the whole story of the saving in interest payments which the banks of the nation have effected. Fifty clearinghouses reported that their members were deducting the legal reserve, ranging from 7 to 13 per cent, before calculating interest on demand deposits, and part of the members of five other clearinghouses were adopting this principle. In addition, it was found that banks belonging to five clearinghouses were deducting the reserves on time deposits before figuring interest, one on savings, two on time certificates of deposit, 35 on deposits of other banks and 27 on public funds.

The net effect of the reserve deduction, of course, is to conserve interest. In New York City, for instance, the clearinghouse directed its members to subtract reserves on all classes of domestic deposits before paying interest, with the result that the rate on demand deposits, while nominally ½ of 1 per cent, is actually $\frac{7}{16}$ of 1 per cent. Thus it is clear that interest rates on bank deposits for much of the country seem higher than they actually are. Nevertheless, in isolated cases demand deposit rates are still quite high, even if the legal reserve and more besides be deducted. Two clearinghouses informed the Association that their members were paying 4 per cent interest on demand deposits, while member institutions of another clearinghouse were paying 4 per cent on part of their current accounts.

The great mass of reporting clearinghouses supplied information on the practice their members followed on free balance requirements and the setting of limits below which interest was not paid on demand deposits. The favorite minimum limit for demand deposits on which interest was paid was $1,000, for this level was maintained by members of 31 clearinghouses. The next most popular minimum was $5,000, which had 25 adherents. Eight clearinghouses stated that a $2,000 minimum limit was being upheld, a similar number $10,000, one $15,000, three $25,000 and one $50,000. The minimum limit for members of seven clearinghouses was $500, while others reported split sums difficult of classification and others replied in such general terms as "depends on activity," "arbitrary," "generally $500," etc.

With respect to free balance requirements, members of 22 clearinghouses gave $1,000 as their requirement, while three reported $500, six $5,000, six $10,000, two $3,000 and one $1,000 to $125,000. Banks belonging to four clearinghouses—one in Florida, in California, in Georgia and in Indiana—attempted to put the free balance requirement on a more scientific basis by stipulating a certain percentage of the minimum balance. One insisted on float plus 20 per cent, another 20 per cent of the deposit, another 25 per cent or float and another 10 per cent.

When one leaves the field of demand deposits and enters into that of longer term deposits, be they time, certificate of deposit, savings or Christmas Club, one finds more resistance on the part of bankers to deposit rate reductions. Although cuts have been made here, too, it is apparently demand deposits that have borne the brunt of the effort to reduce expenses through smaller allowance on deposits. In spite of the high rate which time funds traditionally bear, bankers have long had a partiality to this class of deposit because of the lower reserves required against it and the certainty that return of the deposit cannot be demanded of them until a day which is known beforehand and can be prepared against. They have instructed their depositors in its uses and advantages, and now its inflexibility is at times proving disconcerting. Members of the Federal Reserve System paid out 22.4 per cent less interest on deposits last year than in 1930, but the saving on time deposits was only 14 per cent, as against one of 37.7 per cent in the case of demand deposits.

There has been hesitation in lowering savings rates drastically for fear of driving deposits elsewhere, as into mutual savings banks, and of allowing the public to lose the incentive to thrift which attractive interest rates provide. Yet where banks have done the courageous and at the same time the conservative thing in bringing time and savings rates

BANKS PAYING NO INTEREST ON DEMAND DEPOSITS

How This Group Reported by States Regarding United or Individual Action, and Subsequent Losses in Deposits

Location	*No. of Reporting Clearing Houses*	*By Clearinghouse Rule (a)*	*Loss in Deposits*
Arkansas	2	Yes	No
California	3	2 Yes; 1 No	No
Colorado	2	Yes	1 No; 1 Yes
Georgia	1	Yes	No
Illinois	4	Yes	No
Indiana	2	Yes	No
Iowa	5	4 Yes; 1 No	3 No; 2 Yes
Kansas	5	Yes	No
Kentucky	1 (b)	Yes	No
Louisiana	1	Yes	No
Minnesota	6	Yes	5 No; 1 Yes
Mississippi	5	3 Yes; 2 No	No
Missouri	8	6 Yes; 2 No	No
Montana	3	2 Yes; 1 No	2 No; 1 Yes
North Carolina	1	Yes	No
North Dakota	1	Yes	Yes
Oklahoma	1	Yes	No
Oregon	1	Yes	No
Pennsylvania	6	5 Yes; 1 No	6 No
South Dakota	4	3 Yes; 1 No	2 No; 2 Yes
Tennessee	3	Yes	No
Texas	2	Yes	No
Washington	1	Yes	No
West Virginia	1	No	No
Wisconsin	2	Yes	No

(a) Or other joint action.
(b) Exceptions on some accounts.

down they have, so far as the Association's survey discloses, found the public almost invariably in a co-operative mood.

Four clearinghouses reported that their members had lost savings deposits on reducing interest rates, one attributing the cause to the fact that the savings bank rate was 4 per cent and another to the fact that the mutual institutions were paying 4½ per cent, as against 3½ per cent for the commercial banks in each case. By and large, however, the survey warrants the generalization that rate reduction policies have not been attended by withdrawals. Naturally those banks were most fortunately situated which had maintained flexible rates in the past, taking occasion fairly often to impress the public with the fact that safety of principal is vastly more to be desired than high and constant rates.

GENEROUS TREATMENT

BASED on averages of clearinghouses reporting to the Association, banks of the country are allowing customers 3.33 per cent on savings deposits and 3.16 on time deposits. On bank deposits and public funds the banks still are giving their customers generous treatment, in comparison with other classes of demand deposits. One would naturally expect that, before all, the banks could agree upon a low schedule of interest for the deposits of one another. But up to the present this is far from being the case. Taking the country as a whole, banks are still paying an average of 1.81 per cent on one another's deposits.

It is to be expected, however, that this rate problem will remedy itself as the interest payments on other classes of deposits are lowered, for clearly the interest which banks pay one another goes in part to supporting the rate on other kinds of deposits.

A GOOD PRECEDENT

THE large New York banks have just provided a good precedent in the matter of getting interest rates on bank deposits down to a more rational basis. A good many banks, of course, have rates that discriminate in favor of certain bank deposits, particularly those of savings banks, on the theory that these deposits are more stable and less subject to sudden withdrawal. For years the New York banks have been extending this favorable treatment to the deposits of foreign central banks, but once these banks began to turn over their deposits in large volume, hauling them into the Federal Reserve and returning them to the market the next day, generally cutting down on them as gold was bought, the New York banks removed the differential in favor of these deposits. They were put on the same basis as foreign corporate deposits. The action was an open invitation to withdraw the deposits, as the banks believed they would be better off without so flighty a customer.

No genuine start can be made toward placing interest rates on the soundest possible basis until the banks develop concert of action to the full. Here and there a very courageous bank may take a lone stand against the general interest practice, but it is only by unity of action that the most valuable and all embracing results can be obtained. The first step is to remove harmful competition among banks serving the same locality, and the next is to prevent localities from bidding against one another for a volume of deposits that cannot readily be swelled enough to prevent one bank or set of banks from profiting at the expense of others.

It is pleasing to record that the inquiry conducted by the Association reveals that members of only 15 per cent, or 37, of the clearinghouses sounded out have no agreement of any sort guiding

their action on deposits. Members of 135 of the 244 reporting clearinghouses permit their interest rates to be governed by clearinghouse rule, and members of 22 more have other means of achieving joint action. Forty-four exercise a limited supervision over interest rates of members. The fact that a clearinghouse has jurisdiction over the deposit rates of members is not in itself a guaranty that reasonable rates are being maintained, but it is an important step in the right direction, if only for the reason that it provides the mechanism for quick and concerted action.

The great strides which many banks have made in reducing deposit rates to business-like levels and the increasing popularity of the clearinghouse movement are two of the most significant developments of the depression for the banking fraternity. The gains so registered should be increased and consolidated in order that the banks of the country can be in impregnable position in any future emergency.

Credit Expansion through Trade Acceptances

(CONTINUED FROM PAGE 32)

they are not yet a recognized medium of bank credit. Progress will be made if the business interests back of the present commendable effort to broaden the use of acceptances will educate manufacturers, wholesalers and others outside of the larger cities, to the possibilities for the use of these instruments. They should also impress upon them that notes given to close slow and doubtful accounts cannot be disguised successfully as acceptances, and that the seller using acceptances must not expect that his local bank will unjustifiably increase his total bank credit because he is adopting a sound plan for handling credits resulting from current sales.

Bankers must not be led to believe that they will be required to grant substantial open lines and also grant substantial amounts of additional credit in the form of acceptances. The extent to which their customers may be entitled to bank credit may be safely extended in many instances if their customers will demand acceptances from their buyers, but the opportunity for expanding credit in this way must not be abused.

HANDLING THE PROBLEM

BANKERS who have not developed the use of acceptances among their customers are willing to give careful study to this development and to encourage their wider use where the customers' lines of business justify a change of method, realizing that many smaller manufacturers, wholesalers and others could change their credit plan from open accounts to an acceptance basis with advantage to their own position and to their local bank. The problem must be approached from several different angles and it is encouraging to find many of the larger concerns in this country taking the lead in this movement. If a nation-wide result is to be produced, the advantages to local banks should be definitely established through banking associations while the story is being carried to the business men of the country by the various agencies now at work on the problem, and we may expect a sound credit expansion when acceptances are recognized in the smaller towns and cities as a liquid and marketable bank asset and as the safest plan for extending credit.

It is necessary to establish quite definitely in the minds of those bankers

who have not developed the use of trade acceptances among their customers, that these acceptances will be liquidated at maturity through the sale of the goods that they cover and that such acceptances are not to be offered to the bank to cover transactions that the seller expects will result in requests for the renewal of the paper. The duty rests upon those encouraging extension in the use of acceptances to get these ideas definitely implanted in the minds of those who are to offer acceptances to their local banks.

How Trust Assets Met the Test

(CONTINUED FROM PAGE 22)

institutions suspended in populous states like Ohio, Pennsylvania and New York, is about $2,500,000.

These figures as to number of trust institutions suspended and amount of trust assets involved should not be construed as evidence of greater safety or superiority in any way of banks that are also trust institutions over banks that are not. The only point in support of which these figures are offered is that comparatively few of the suspended banks, even though trust companies so called, were trust institutions in fact.

THE VITAL QUESTION

IN practice, how safe are trust assets? This is the vital question at issue.

The largest national bank, which was also a trust institution, that was suspended during 1931 was the Bank of Pittsburgh, N. A. It had $36,000,000 trust assets. The receiver of the bank promptly placed one of his assistants in charge of the trust department to supervise the trust officer and the trust department employees who were retained in the service after the bank was closed. Mr. Gwilym A. Price of the Peoples-Pittsburgh Trust Company, who is thoroughly familiar with the way the trust assets of the Bank of Pittsburgh, N. A., have been handled, says:

"The income has been remitted regularly to the beneficiaries of its estates. Interest has been collected on trust investments. Accounts have been filed in the Orphans Court covering the administration of estates in process of settlement where the time for filing accounts has elapsed and the estates are ready to be distributed. Every dollar of the uninvested cash on deposit by the trust department with the banking department of the Bank of Pittsburgh has been repaid, because Government bonds in excess of the deposits were pledged in the hands of the trust department to protect its cash deposits. There has been no criticism in Pittsburgh of the handling of the trust department by the receiver. Were it not for the natural timidity occasioned by the closing of the bank and the necessity of selecting a successor, I doubt if many of the trust beneficiaries would have known that any change had taken place." (*Trust Companies*, January, 1932, p. 21, at pp. 23-24.)

The Comptroller of the Currency, speaking of all the national bank trust institutions that were suspended during 1931, says "the law and the regulations are very specific in requiring national banks exercising trust powers to segregate all assets held in any fiduciary capacity from the general assets of the bank. Furthermore, uninvested trust funds which are deposited in the commercial or savings department of the national bank are required to be adequately secured by United States or other readily marketable securities. No instance has been reported where a loss has occurred to an estate under administration by a national bank by reason of the bank becoming insolvent."

The largest state bank trust institu-

tion that was suspended was the Bank of United States of New York City, which at the time of its suspension on December 11, 1930, had in its trust department $25,000,000 in collateral, $29,000,000 in corporate bonds outstanding, and $700,000 in cash. Soon after the suspension the bank examiner said, "we have segregated all the trust assets and are performing all trust functions under the various trust appointments as evidenced by indentures, wills, agreements, and other documents.*** The net result is that the closing of the bank did not affect in any manner the administration, execution or safety of the trusts of its clients."

A GOOD RECORD

MORE than a year later—i. e., in June, 1932—the bank examiner reported "liquidation of the personal trust department of the Bank of United States is virtually complete.*** No beneficiary, creator, or any other party to a personal trust has lost a cent of trust funds or income as a result of the bank's closing.*** We have paid trust income to beneficiaries, disbursed trust principal when so directed, and carried out the various trustees' duties set forth in the trust agreements in the same manner as would a going institution, and our records show that in all cases, the inviolability of trust assets has been preserved."

Speaking, not of the Bank of United States alone, but of all the suspended state banks and trust companies in New York State—28 in 1931, of which 8 had trust assets—the Banking Department of the State of New York reported on June 14, 1932, that, according to its records and so far as it is aware, "there have been no losses (exclusive of any depreciation in the market value of trust securities) to the beneficiaries of any trust or estate funds which have been managed by a trust company or a bank under the supervision of this department."

THE "ONE IN SEVEN"

OF the 20,747 banking institutions in the United States as of January 1, 1932, less than 4,000, or less than one in five, were trust institutions, even when there are included in this group those institutions which have trust powers but have never exercised them, even though these institutions may have the word trust in their corporate titles. Of the 2,298 banks that were suspended in 1931, only about 300, or one bank in seven, had any trust assets (estimating for the seven states for which we have no figures at the same ratio as exists in the case of the 42 states for which we have figures).

TRUST ASSETS AMPLY PROTECTED

THE trust assets that were involved in these 300 suspended banks that were trust institutions in a small or large way, have been amply protected by the segregation of trust assets, by the deposit of securities to protect trust funds, and by the statutory preferences given to trust deposits over general deposits. Furthermore, there has been little or no break in the continuity or let-down in the quality of service to the beneficiaries of these trusts, even while the banks were in process of liquidation and the estates and trusts in process of transfer to new administrators and trustees that had been appointed.

All this bears out what the JOURNAL stated editorially in November, 1931. "The recent suspensions and failures of banks", the JOURNAL said then, "so far from shaking public confidence in corporate trusteeship, have only served to call the attention of the public in a most impressive way to the safeguards and protections that are thrown around trust estates committed to banks and trust companies."

Behind the Bond News

(CONTINUED FROM PAGE 5)

they proceed. It is probable that the securities markets have never occupied so strategic a position on the road to recovery.

The career of the Treasury 3s of 1951-1955, marketed last September, has been such as to give rise to the question whether it is wise for the Government to take advantage of a temporary condition of great ease in the money market to load the banks down with an issue bearing a coupon considerably below the average cost of long-term credit to the Government over an extended period. The 3s have been at a discount continually since they were originally sold. It is true that the collapse of the pound sterling within a week after the issue was brought out and the run on this country's gold by foreign central banks were events which the Treasury could not well have foreseen. It might be argued that if these unprecedented events had not come to pass the 3s would have stayed at or near parity for a long time.

PENALIZING THE BANKS?

IT could be predicted with great certainty, however, that the slightest hardening in the money market would drive the issue to a discount, thereby creating a potential loss for the banks. Most of the large banks foresaw this possibility, for it is by now an open secret that they were importuned to make the issue a success. It would seem the better part of wisdom to let the Government stand the expense of a higher coupon than to penalize the banks by giving them a bond certain to depreciate in market value at a time when they most need an issue that will show them no loss.

The point in a depression when a government's long-term issues begin to improve in price, indicating a relaxation of the crisis of confidence, is of such vast importance that one wonders why the authorities are so zealous in heading off the rally. After reaching a high of 5.76 per cent in December, 1920, the average yield of the Liberty issues began to recede in January, 1921, and in April of the latter year the index of business touched bottom and then began its gradual improvement. By the end of 1921 the yield of the Liberties had fallen to 4.54 per cent, and the Standard Statistics index of business had risen from a low of 67.4 in April to 75.9 per cent. The firmness of the Government issues at this time may well betoken the arrival not long hence of an improvement in business, and if this proves to be the case some measure of credit is due the Glass-Borah amendment for making the low coupon Treasuries a more valuable asset to the banks.

The foreign bond list is still suffering from an unusually heavy load of adversity. Confidence has been jolted anew in quarters that had been thought reasonably secure from the menace of tactics destructive to the primeness of credit. It was regrettable but not altogether surprising that certain Central European countries should fail to appreciate the great value of an honorable debt record and to make every effort to keep that record unsullied, but it was surprising and doubly regrettable that there should come out of Germany broad hints that negotiations might be undertaken to bring about a scaling down of interest rates of certain public and private obligations and even, in some cases, of principal.

Most American bankers conversant with German affairs have not taken these reports seriously as yet because they believe such a move unthinkable on the part of a country as well versed as Germany is in the nature and function of credit.

Commodities Are in the News

(CONTINUED FROM PAGE 48)

long been regarded as barometric of the foodstuffs markets and thus the recent rally of hog prices from $3 to $5.55 a hundred pounds was hailed with considerable enthusiasm. However, the low price of the current year was unequalled for a period of 80 years, and compares with $7 per hundred a year ago. Hog prices are largely influenced by the price of corn, which is the principal food crop for livestock on the farm.

As for rubber, a steady decline from the peak price of $1.26 a pound in 1926 to 2½ cents a pound in June is the remarkable record of crude rubber. It is now one of the only commodities fully free from artificial influences of all kinds. Improvement in the statistical position of crude rubber is reflected in its August rise to 3½ cents a pound, and the outlook at this writing appears somewhat brighter.

Copper, tin and silver present an interesting picture in the metals markets. Copper consumption is virtually at a standstill. It is currently quoted at 5½ cents a pound in the domestic market and 5¾ cents a pound c.i.f. for the foreign trade. With the cost of production ranging from 6 to 8½ cents a pound, it is easily seen that some special stimulus will be needed to put the copper industry upon a profitable basis.

SILVER

SILVER is currently quoted around 28 cents an ounce, three cents above the record low. Last November the white metal, mostly as the result of artificial measures which stimulated wide speculation, rose from 26 to 40 cents an ounce. Silver depends for its market upon the prosperity of the Far East—China, India and the Islands of the Sea. Silver also plays an important part in the subsidiary coinage of a large section of the civilized world and its future price trend will be guided by the success of efforts to re-monetize the metal.

Regarding coffee, the Brazilian government burned 7,000,000 bags and destroyed a number of coffee trees in a fruitless effort to stabilize prices for its principal product. The best santos in the first part of August quoted at 12 cents a pound, Rio No. 7 at 8 cents and Victorias at 7¾ cents.

Sugar's 100 per cent rise from 57 cents a hundred pounds to $1.10 followed directly the Cuban President's edict ordering a reduction of 700,000 tons in the volume of raws exportable to the United States. On all Cuban importations the duty has been fixed at 2 cents a pound.

Cocoa has recently enjoyed a good demand in the spot market from manufacturers, and prices have rallied about 50 per cent since early June. There is now an excellent balance between supply and demand, with stocks of raw cocoa beans in the New York warehouses steadily diminishing.

Raw silk, which in 1929 sold at $5 a pound and in 1930 at $4, has declined in the intervening period to about $1.12 cents a pound. The statistical position of raw silk has improved steadily since the first week in June, as reflected in a rally to $1.50 a pound two months later, and the trade entertains the view that the worst in silks has been seen.

THE FUTURES MARKETS

COMMODITIES which have become the essentials of modern civilization require for their orderly sale and distribution a system of well organized markets, where quotations are readily available for both spots and futures. Despite the criticism that has been levelled against these "futures" markets, there is ample evidence that they are fulfilling a useful and indispensable function.

The Chicago Board of Trade is perhaps the most important grain futures market in the world; but wheat, corn, oats and other foodstuffs are traded in on the Duluth Board of Trade, the Minneapolis Chamber of Commerce and the Kansas City Board of Trade. In Chicago the contract units are 5,000 bushels of wheat, corn, rye, oats and barley, 50,000 pounds of lard and ribs, 25,000 pounds (50 bales) of cotton.

The New York Cotton Exchange holds the record in the textile world both for volume of transactions and for speculative interest. The unit of trading is 50,000 pounds (100 bales) of cotton and 5,000 pounds of wool tops.

Other important commodity exchanges with trading units follow:

Chicago Mercantile Exchange: butter, 19,200 pounds; eggs, 12,000 dozen.

New Orleans Cotton Exchange: cotton, 50,000 pounds; cottonseed oil, 30,000 pounds.

Minneapolis Chamber of Commerce: wheat, oats, rye and barley, 5,000 bushels; flaxseed, 1,000 bushels.

Kansas City and Omaha Boards of Trade: wheat and corn, 5,000 bushels.

New York Cocoa Exchange: cocoa, 30,000 pounds.

New York Coffee and Sugar Exchange: coffee, Rio No. 7, 32,500 pounds; sugar, 112,500 pounds.

New York Hide Exchange: hides, 40,000 pounds.

National Metal Exchange (New York): copper, 56,000 pounds; tin, 11,200 pounds; silver, 25,000 ounces.

New York Produce Exchange: cottonseed oil, 60,000 pounds; bonded wheat, 5,000 bushels. On the New York Mercantile Exchange the unit in butter is 19,200 pounds, and in eggs, 12,000 dozen. The New York Produce Exchange also maintains a broad cash market in foodstuffs of various kinds.

National Raw Silk Exchange, New York: silk, 1,300 pounds.

New York Rubber Exchange: rubber, 5,600 pounds.

Milwaukee Chamber of Commerce: wheat, corn, oats, barley and rye, 5,000 bushels.

Canada's most important futures market is the Winnipeg Grain Exchange, where the contract unit is 5,000 bushels of wheat, corn, oats, barley and rye, and 1,000 bushels of flaxseed.

Conservatism in the Political Scene

(CONTINUED FROM PAGE 19)

sion of Congress which ended in July. A contrary impression was created by chaotic conditions that arose in the House on two occasions, by radical proposals brought forward but not enacted, and by radical speeches made. All that was a thing distinct from legislation enacted. The legislation was without exception conservative. It is true that one measure, proposed by Senator Borah of Idaho and passed as a rider on a bill for home loan banks, looks to the creation of some additional currency based on a limited classification of Federal Government bonds. That is an apparent but not a real addition to currency by inflation. The quantity was limited, the period during which the new currency can exist was limited to three years; and the measure, in actual operation, will not result in any net addition to currency. Of the conservatism of this measure, it is sufficient proof to say that Senator Carter Glass of Virginia assented to it. Senator Glass is utterly orthodox in his views on currency and banking. He would no more assent to currency inflation than to importation of plague germs.

Most of the relief legislation enacted by the recent session had a relation to currency and banking. Because of that, Senator Glass had close contact with it, almost supervision of it. Because of the authority Senator Glass is in this field, and because of the deference paid him by both parties, no fiscal legislation deemed undesirable by the Virginia Senator would be likely to pass. None such did pass. All the legislation enacted by Congress was conservative.

For the conservatism of this political year, there are several causes.

At the time the depression began and during the early part of it, the so-called Russian "five-year plan" was much in the news. By a kind of intellectual infection, many radicals, some college professors, and many leaders of the type called "high-brow," declared that the United States could only escape from the depression by adopting some kind of economic autocracy similar to the Russian one. To such suggestions American public opinion—to some extent led that way by President Hoover—crystallized in a kind of defensive conservatism, a determination to go through to the end of our troubles conforming to cherished American traditions.

Radical political movements in past business depressions sprang in part from labor. Labor in this depression, however, took strongly the conservative path. Probably one reason was the satisfaction of labor with a sympathetic attitude adopted toward it by heads of industry at the beginning of the depres-

sion. As early as November, 1929, organized industry, with the encouragement of President Hoover, proclaimed a policy to the effect that wage-rates should be maintained so long as practicable. In time, wage reductions proved to be unavoidable. In the meantime, however, an appreciative state of mind had been created in labor circles. Throughout three years of this depression there has been, not only no radical political movement, but no important strike, no calling out of troops to suppress labor riots, nothing of the kind called "labor troubles." In all previous depressions, these had been familiar phenomena. In this depression, when wage-cuts had to come, labor accepted them in a spirit of reason. All this contributed to a state of mind inhospitable to radical political movements.

THE FARMER'S ATTITUDE

A THIRD cause for the country's taking strongly the conservative path was the evolution of thought among the farmers who compose a third of the country's voting population, and have, because of their compactness, more than their ratio of weight in political action. The first reaction of the farmers to the depression was resentment against heavy taxes, especially local, state and county taxes. Farmers, finding difficulty in paying their taxes, and threatened with foreclosure, saw the tax-collector in the rôle of trying to take the farmer's land for the state. Against that there was prompt and angry resentment. The farmers' attitude was distinctly one of resisting aggrandizement by the state. It was opposite to the Russian direction. It was in effect "less of my earnings for the state, more for me."

This opposition by farmers to high taxation, and therefore to high cost of government, became the strongest one present type of political thought in the United States. It was definitely against anything having the nature of state socialism. It was definitely anti-radical, strongly in the direction of old-fashioned American individualism, strongly conservative.

Advertising Objectives

(By W. E. Brockman)

(CONTINUED FROM PAGE 17)

ters made some attempt to unite in the effort to maintain their deposits and to bring hoarded money back. Some effective work was accomplished, yet the continuation of bank failures offset most of the good effects.

Even with the support of the Reconstruction Finance Corporation and other Governmental machinery, bank failures have continued to occur at frequent intervals. Unless failures can be halted either through the return of better conditions or through the passage of legislation designed to strengthen the banking system and to enable banks to operate at a profit any general program of confidence building will be apt to fail in attaining its objective.

THE DEPOSITORS

EVERY failure adds weight to the responsibility which the advertising man has today, and makes his job more difficult. People give little consideration to organized propaganda designed to convince the public that "the banking structure of the country is sound." What the depositor wants to know is whether or not the bank where he keeps his money is safe and under competent management. The primary question today in the minds of the public is safety; every other consideration is secondary.

If this analysis is correct, then the issue is clear-cut. The advertising objective is definitely pointed toward rebuilding confidence in the management of the individual banks and, upon this confidence, rebuilding deposits from new money and old money hidden away in tea kettles, coffee pots, mattresses and other places.

THE LOAN PROBLEM

A GREAT many people are under the impression that because of the inauguration of new loan policies, banks are restricting credit to an unnecessary degree. This thought has been somewhat aggravated by some of the members of Congress who have pointed to the fact that banks were not cooperating with the Administration in trying to stimulate business. Banks in the Northwest and other parts of the country should make it a special point to advertise that they are ready and willing to loan money to sound, well-managed businesses that need money in connection with merchandising their products. Banks were never intended as an agency to make capital loans and this difference should be pointed out in a clear way in explaining the loan policies of the banks today.

The outlook for abundant crops and the present trend toward an increase in live stock prices have imbued the whole territory with a tone of optimism. Already, business concerns are laying their plans to increase their sales efforts in the rural territories. Advertising budgets are being revised, and some of the large organizations are considering carefully the desirability of increasing their ex-

penses for advertising purposes and taking new steps to increase the activity of their sales departments.

The president of our organization said in a public statement over two years ago that agriculture would lead the way toward prosperity. The "lowly hog" has done more to put enthusiasm and hope into the northwest territory than almost any other economic factor.

There are many sound reasons why banks in this territory should advertise now, and advertise intelligently with eyes front on a definite goal.

There is a very wide difference in banking conditions and in the attitude of the public toward the banks in different sections of the country. The problems in New York and Chicago are vastly different from those in Minneapolis, St. Paul, Des Moines and other points in the middle Northwest. A program designed to suit the Chicago banking situation may not be at all effective in the Northwest and may be entirely useless for the Pacific Coast. The extent of the territory and the difference in the viewpoint of the people, plus a wide difference in business conditions, give to each section of the country an individual problem.

THE TIME IS RIPE

RECENTLY the head of one of our large banking organizations operating in this territory made the statement that the time is ripe for banks in the Northwest to increase their advertising and that it would be false economy not to do so.

In my judgment, bank advertising today should be of such character that it will build confidence in the individual bank, and of such frequency that it will keep the public constantly reminded of its existence.

In an exclusive article for the Wall Street Journal in February of this year, I made the following statement, published under the heading "Vigorous Bank Advertising Seen Aid to Confidence":

"In pursuing a policy of reducing expenditures, there has been a tendency with banks to curtail advertising and publicity expenses without proper consideration of present conditions The people of the country are looking anxiously for leadership that will bolster up their confidence in the banking structure of the country and give them courage to go forward with plans for the development of individual business enterprises.

"This is not a time for extravagance, but it is a time for judicious expenditure of advertising and publicity money that will restore the confidential relationship which has existed between banks and the public in the past. By eliminating from advertising expense unprofitable forms of advertising, banks can make substantial savings and, at the same time, keep the main channels of publicity open.

"A steady and vigorous program of institutional advertising is the need of today."

Commenting upon this statement, the Wall Street Journal said, "As good will is such a prime asset to a bank, surely those banks which have been steadily building it, irrespective of the times, will be the first to profit from better business conditions."

CONDITIONS IMPROVE

BETTER business conditions are in sight in the northwest territory. It is amazing that banks have stood up as well as they have in this territory.

The policy adopted by our organization this year has been to take our depositors and the public into our confidence more than ever before by giving them frank and full operating statements showing charge-offs, losses, bond depreciation and detailed earnings. The banks of the entire country face the necessity of reestablishing the confidential relationship which has existed in the past between them and the public. This can be done only by frankness. The bank that does not admit losses and charge-offs under present conditions will arouse suspicion and break down confidence to a greater degree. It is a job for each individual bank and cannot be done on a nation-wide, cooperative basis.

Taking into consideration the increase in postal savings deposits, the amount of money hoarded, the general loss of confidence in banks, and the prospects for good crops and better times this fall, it would seem entirely logical that banks should undertake, now, aggressive advertising and publicity campaigns that will bring money back into the banks and reestablish confidence in their management.

Advertising Objectives

(By Ray A. Ilg)

(CONTINUED FROM PAGE 16)

Bank advertising of this insurance type is aimed at three targets—depositors, stockholders, and the great mass of people who control public opinion. This means institutional copy which will strengthen the confidence of depositors and stockholders and which will mold the opinion of the public in

general. This great mass must be considered as one of the main objectives in advertising programs even though there is not the remotest likelihood of their ever doing business with the bank that is advertising for their benefit.

The problem of advertising strength to these various audiences will be attacked in many different ways. Our particular methods of meeting the problem may be of interest.

OUR METHODS

TO help mold the opinion of the mass and to further the loyalty of our own depositors we have combined an extensive outdoor advertising campaign together with our newspaper, publication and direct mail schedules. No one type of advertising seems to us capable of a complete job—but the combination, we hope, will accomplish our purpose.

The newspaper campaign is a combination of straight institutional advertising coupled with an effort to show how the bank is thinking. We try to show that we are well abreast of the times—that problems in business created by this period are continually studied by our staff—that our strength lies not only in our liquid condition and the loyalty of our depositors, but also in the tempo of action and thought of our institution which is constantly aware of current conditions.

Our mail campaigns are directed for the most part to customers and stockholders. Keeping them posted on the progress their institution is making seems to us one of the most important phases of advertising under present conditions. Customers and stockholders are always interested in a statement of condition.

The outdoor campaign is purely institutional, carrying two words—"Outstanding Strength." Its task is to keep the name of the bank continually before the mass of the people. It must make them think in this sequence—Bank—Shawmut—STRENGTH.

Our publication advertising is directed to customer banks. They look upon strength as the first qualification in the selection of a depository.

In summary I can say that the request for an opinion on this question, "What Should Be the First Advertising Objectives for New England Banks This Fall?", can be answered as follows: Think of advertising as insurance. Advertise not for new business but rather to build and retain the loyalty of present customers. Advertise to mold a feeling of secure confidence in your institution by your entire community. Strength and security are the keynotes.

INDEX TO ADVERTISERS

SEPTEMBER, 1932

How Many Can You Answer?

These questions were taken verbatim from the examination requirements of the American Institute of Banking

1. E is the holder of a note made payable at the First National Bank of his town. B, C, and D are indorsers and A is the maker. All of the parties live in the same town.
(a) What should E do when the note matures?
(b) What would be the result if E should fail to present the note to A for a week after it becomes due?

2. (a) Explain the difference between value and price. How is each determined?
(b) Explain the difference between normal price and market price.

3. (a) What is commercial paper?
(b) Briefly discuss the method of handling such paper.

4. (a) Discuss the general points that might govern the policy of a bank in making loans and soliciting new business.
(b) Why are balance requirements an important factor? What relation does this factor have to the line of credit and to interest rates?

5. Explain the following statement: "When a tax is levied on a corporation, the ultimate burden is generally believed to fall on the stockholder or bondholder."

6. What happens if a trustee mingles the trust fund with his individual property?

7. (a) Explain what is meant by "transit" checks.
(b) Discuss the work of the transit department.

8. A is insured for $100,000. He dies. Is his life insurance subject to the federal estate tax?

A and B, partners, sell out their business and take in exchange a certificate for 100 shares of stock in the X Corporation made out to A and B as tenants in common. A dies, and B thereafter presents the certificate to the company, asking for a transfer of forty shares in the name of the executor of A's estate and sixty shares to himself. What documents should the secretary of the company require before making such a transfer?

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9. The guardian of a minor purchased an undeveloped mine, borrowing the money out of funds in his bank as guardian of a minor making out notes to the estate of the minor. The guardian offered the full amount of the money invested in the mine, increased by 6% interest, the legal rate in the state. The minor refused to accept the money but instead demanded the mine and the dividends earned while the mine was in the guardian's possession. The minor admits that he would not accept the mine had it not been successful. What are the rights of the guardian? May he hold the mine by the payment in the manner described above? Give your reasons.

10. A executed his promissory note, due April 1, to B, who indorsed to C, who in turn indorsed to D. On April 1, D presented the note to A, who refused to pay, and on that day D notified C by mail of the dishonor. Through delay in the mail, C did not receive the notice until April 6; but on that day C mailed notice to B, who received it on April 7. On April 5, D also sent notice by mail to B, who received it on April 6. D sues B and C on the note. C defends on grounds that he did not receive proper notice.
(a) Is C's defense good? Give reasons.
(b) B also defends on the same ground. Result? Why?

11. Distinguish between the duties of a transfer agent and a registrar.

12. (a) What are the outstanding provisions of the law under which the railroads are now operating?
(b) What is the present status of (1) pooling? (2) railroad consolidation? (3) settlement of railroad labor disputes?

13. Briefly discuss the characteristics which a good monetary system should have.

14. (a) The A B C Company shows charge sales for 1930 amounting to $720,000. Its receivables on December 31, 1930 amounted to $84,000. How many days' sales do receivables represent? (Use 360 days to the year, showing your calculations.)
(b) Assume that the terms of sales are net 60 days. Is the condition satisfactory? Give your reason.

15. (a) Define the following terms: depreciation, depletion, obsolescence.
(b) Show how and why a steam power plant operating its own coal mines should take each one into account.

16. (a) Define the two forms of bills of lading.
(b) Explain their use as collateral to a loan.

17. (a) What sort of information does a bank want before granting a firm a line of credit?
(b) What are the general sources of such information?